

ECONOMIC AND POLITICAL

WEEKLY

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August 7-14, 1993

■ **SECOND FINANCIAL CENTRE FOR
BOMBAY: WHERE SHOULD IT BE?**

■ **DEMAND SIDE MANAGEMENT IN
POWER PLANNING**

■ **BIAS IN SOCIAL CONSUMPTION:
DRINKING WATER IN RAJASTHAN**

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REDRESSAL: KERALA EXPERIENCE**

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PLAN: SOME IMPLICATIONS**

■ **INFORMATION TECHNOLOGY FOR
TAX ADMINISTRATION**

■ **HEALTH CARE IN MAHARASHTRA:
COMPARATIVE ANALYSIS**

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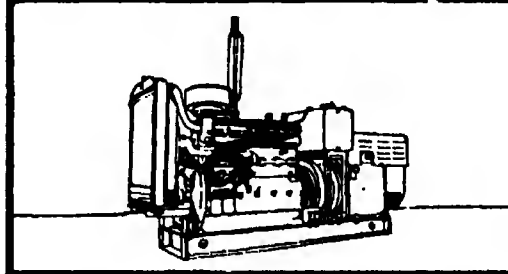
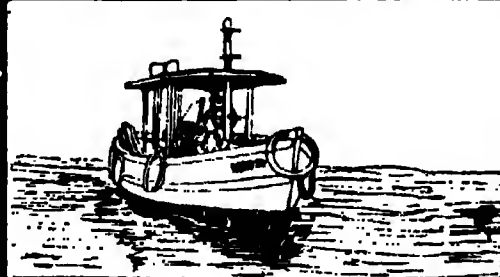
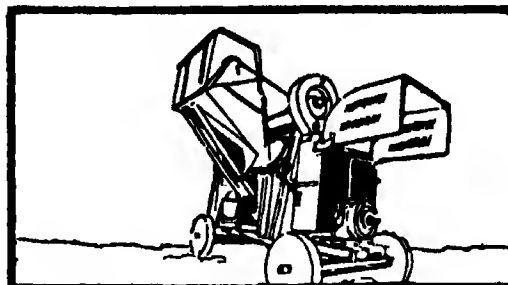
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Demand-Side Solution

To meet the increasing demand for power the typical response is supply-sided: build new power plants. However, energy saved at the consumers' end is several times more effective than creating extra generating capacity. A demand-side management plan for high tension industries in Maharashtra, perhaps the first comprehensive DSM plan worked out for any state.

1659

Trickle-Down Health Care

A study of health indicators for Indian states brings out two broad patterns among states which have achieved relatively satisfactory growth of these indicators: the first, represented by Maharashtra and Punjab, attributable to the trickle-down effect of capitalist modernisation; and the second, represented by Kerala, rooted in certain social, political, geographic and demographic peculiarities.

1671

Financial Centre

The 'decision' to locate a major new Financial Centre for Bombay at Bandra-Kurla has been taken without an assessment of alternative sites and without considering the impact such a centre at such a location will have on the development of Bombay.

1631

Subsidy for Rich

The objective of providing safe drinking water to all remains a distant goal: while the urban-rural disparities persist, in the urban areas, in the absence of progressive pricing, the benefit of subsidised water is largely appropriated by the higher income groups.

1645

Probing the Targets

Unlike the Seventh Plan, the Eighth Plan is not transparent in terms of methodology, assumptions and critical estimation of the aggregates used, making the task of examining the Plan targets more difficult. An attempt to derive the implications of the sectoral targets of the Plan for the economic rate of return and labour income generation required to be achieved on Plan projects/schemes.

1685

Heroes No More

Many factors have contributed to the alienation of the United Liberation Front of Assam (ULFA) from the people.

1635

Dampeners

How best to deal with the growing oligopolistic and oligarchic trends with a view to ensuring that their adverse effects on employment and economic growth are minimised remains one of the most important questions facing Indian policy-makers.

1649

Unprotected

Several agencies have been created under the Consumer Protection Act, 1986. However, the Kerala experience suggests that the functioning of these agencies is constrained by a variety of factors.

1638

Paper-less

While the use of computers in tax administration is now almost universal, some countries are well on their way to creating tax regimes in which tax-payers and tax-gatherers would not have to face each other at all and taxes would flow smoothly into the exchequer virtually without the use of any paper. Their experience holds important lessons for India.

1640

High Cost

The framework of the much-touted Indo-US defence co-operation seems to be coming apart and even the small pickings that are left will come with hefty political price-tags for this country.

1637

23090 28.7.93

No Clear Strategy

THE defeat of the no-trust move against the Rao government in the Lok Sabha should come as a relief not only to the beleaguered ruling Congress but also the ambivalent opposition (both the Right and the Left) which is not yet quite prepared to fight a mid-term poll that would have followed invariably (maybe after some time) if the fall of the Rao government was brought about.

Unlike the earlier two no-confidence motions moved in parliament against the Rao government—which were defeated because of divisions within the opposition—the latest move appeared to have all the trappings of a consensus among the opposition parties over their publicly-avowed aversion to Rao allegedly receiving money from Harshad Mehta. But for all their public rhetoric, these parties remained divided over the question of bringing down the Rao government immediately. The Left, in particular, tried till the last to persuade the Congress high command to dump Rao and replace him with another leader—to salvage the ruling party from the taint of the national scandal—and hereby allow the Left to support it on the floor of parliament and prevent a possible BJP takeover (which it fears) in the next elections.

The BJP, on its part, in spite of its declamatory demands for general elections, is not quite sure about its prospects of emerging as a ruling party if the elections take place. While it did succeed in whipping up mass hysteria over the Ayodhya issue, the demolition of the mosque on December 6 and the riots that followed have to some extent damaged its well-canvassed image of a responsible political party and may have alienated sections of the middle class. Even in its stronghold—the Hindi-Hindu cowbelt—the BJP has faced, during the last few months, challenges from unsuspected quarters, like the students of universities in Allahabad and Benares (where the Left forces had won the students' union elections) and voters in the municipal elections in Shimla in Himachal Pradesh who voted against the BJP. In this atmosphere of uncertainties, the BJP is not yet confident of improving upon its electoral position gained during the last polls (119 in a Lok Sabha of 544 members). It appears that the BJP would prefer to bide its time, instead of precipitating a mid-term poll immediately. It would rather concentrate its efforts on preparing for the assembly elections, scheduled in November, in the four states—Uttar Pradesh, Madhya Pradesh, Himachal Pradesh and Rajasthan—where, if it can win the polls, it will

help the BJP to mobilise public opinion in its favour all over India in the next stage, the campaign for a Lok Sabha poll.

The congregation of all these disparate political parties behind the no-confidence motion did not reflect any well-planned and long-term strategy, either collective or partywise, of coping with the situation in the event of the fall of the Rao government. It all started, as we remember, as impromptu reactions and *ad hoc* responses by the opposition leaders to the revelations about Rao's alleged misdemeanour. The anti-Rao sentiments gained momentum among the public during the last few months with fresh disclosures by Harshad Mehta, the subsequent failure of the prime minister's office (PMO) to put up a strong defence before the Joint Parliamentary Committee, and the escalation in the flow of opposition statements pillorying Rao. It was this momentum which by its sheer impetus forced the major opposition parties to rush headlong into the final act of the no-confidence motion in parliament.

With the end of this act, public attention has now shifted to possible developments within the Congress camp. From the floors of parliament, the political manoeuvring and horse-trading have moved over to the bungalows of the Congress leaders. While some are in favour of allowing Rao to survive till the end of his term, others are getting impatient and want a change in the leadership. The next few weeks will see hectic parleys in both the camps of the pro-changers and no-changers, to win over members of the AICC and Congress MPs to their respective sides.

New Delhi

A READER

Bitter Pill

WHEN Boris Yeltsin got the deal he wanted on the outstanding rouble debt India owed to the former Soviet Union, the unwritten part of the deal was supposed to be not only continued Russian support to India on Kashmir but also continued supply of defence and defence-related hardware. Whether the contract for the supply of cryogenic engines and technology had any defence-related angle to it, required as they were for India's peaceful space programme, the fact remains that both the hardware and its technology could fairly easily be diverted for the purposes of defence.

The cryogenic deal, we are now told, is off. Because Russia has been persuaded, or coerced, to accept the argument that the supply of engines and their technology, especially the latter, violates the pro-

visions of the Missile Technology Control Regime (MTCR) that Russia has committed itself to abide by. That Russia was under strong pressure from the US was known even at the time of Yeltsin's India visit. But we wanted to believe—an Yeltsin encouraged us in that for his own immediate purposes since he wanted a favourable deal on rouble debt as he could extricate from us—that Russia would be able to withstand the US pressure and not renege on its obligations under the cryogenic contract that it had inherited from the previous Soviet regime.

A view can, of course, be taken that the Russian backtracking on the cryogenic contract is not the end of the world for India. Perhaps there is a lot of truth in this view. Perhaps it is for the ultimate good of this country if, as a consequence, our space mandarins can be forced to re-think their priorities and contain their further programme bearing in mind not only the constraints of technology but also resource availability. Unfortunately, whatever the recent resource constraints, there has been no restraining of our space and nuclear programmes. On the other hand, there is also the danger that in the name of domestic technology development, demands may be raised for even additional resources for the space programme. This will have to be strongly resisted.

At the same time, India along with other like-minded countries, must lose no opportunity in exposing the motives behind the US attempts at monopolising the supply of hi-tech defence-related hardware and technology. Already, as a recent US Congress study brings out, the US has emerged as the single largest arms-exporter in the world, with Russia having been beaten down to the fourth place, after France and UK. After all, the commercial angle to the US pressures on Russia in regard to the cryogenic engines and technology was known from the beginning. The US had offered the same to India, though at twice the price at which the agreement with the Soviet Union was ultimately concluded.

But can India really stand up to the US in international fora, given the fact that the economic pressures currently bearing upon India, thanks to our dependence on foreign funds, including those from the IMF and World Bank, two institutions which have become increasingly subservient to the US in the pursuit of our so-called economic reforms? Or shall we swallow the cryogenic pill, however bitter it may be, and be satisfied with some empty noises?

K PRAKASH

Bombay

Joke Repeated

THE instinct for survival is extraordinarily well developed in a party which subsists on the spoils system. It will therefore cash in on all opportunities that suddenly, either by accident or by happenstance, come its way. The Congress(I) had all the months since last December to pass legislation separating religion from electoral politics. But there was reluctance on its part to close the options. The reasons are obvious; it has played the religious card over the years in the electoral season at considerable gains for itself. That the party is being constrained to reverse gears is because the Bharatiya Janata Party has learnt to play that particular card with greater finesse. Unless the judiciary bails it out at the last moment, the Congress(I) will have to lock horns with the BJP in fresh elections in the four Aryavarta states. A legislation, howsoever perfunctorily drafted, separating religion from politics could prove to be of help in the forthcoming electoral battles, more so if the incumbent chief election commissioner continues to be around to interpret the content of the legislation for the benefit of the ruling party at the centre.

But the party is both smart and a non-believer in one-dimensional pursuits. It wants to kill several birds with one stone. Why the *mandir* alone, the Congress(I) managers are anxious to tackle *mandal* too through the modality of the proposed legislation. Any organisation which purportedly uses political campaigns to divide the citizenry in terms of religion, caste, language, etc, ought, in their view, to be interdicted from participation in elections. This would take care of not just the BJP and the V P Singh and the Ram Bilas Paswans; rightly applied, the legislation could also have the capability to cramp the style of leftists who are usually great ones for linguistic self-determination. Perhaps the select committee of parliament, in case it is sufficiently vigilant, would shoot down some of the more outrageous proposals mooted by the Congress(I). But since a legislative exercise generally involves some compromise, the bill in its final form might still retain the potential to dispense pin-pricks fairly even-handedly. For example, the Narmada Bachao Andolan might be claimed to come within its orbit since this movement allegedly incites some sections of the community, namely, the hundreds of thousands of adivasis displaced

by the dams, against the landlords and rich peasants who are to be the major beneficiaries once the Sardar Sarovar project is completed.

But the main concern will still be around the issue of defining the interface of religion and politics. The amendments suggested by the Left Front-Janata Dal alliance, aiming to substitute 'communalism' for 'religion', hardly help. Theoretically it is possible to distinguish between 'religiosity' and blatant communal propaganda. Suppose, however, the proposed legislation clamps a ban on communal propaganda but does not bother itself about, for example, the doling out, day after day, of programmes which instil religiosity; will it make much of a difference as far as the poisoning of the public's mind is concerned? The protagonists of Hindu religiosity have a built-in advantage in the matter since they have on their roster the names of billions of gods and goddesses whose pristine virtues the All-India Radio and Doordarshan could be commandeered to propagate. Whether such propaganda effectively sabotages endeavours for implanting a proper scientific temper amongst the community is a theme that can for the present be left aside. What is of more direct immediate relevance is the possibility of Hindu bigots stealing a march over bigots of other denominational descriptions in using the apparatus of the state to preach Hindu zealotry, and this despite the formal legislation.

If the legislators genuinely want to proceed beyond the pretences of a secular republic, they must, by explicit statute, compulsorily prohibit the institutions of the state from all religious practices, invocations and displays. The state must not take part not only in any communal propaganda; it must not take part, equally emphatically, in any religious propaganda either. Given the genius of those who control the state institutions, the two species of propaganda after a while become indistinguishable. To prohibit communal bile in the election season and specially accommodate in the public media the exhibition of the pranks and pyrotechnics of gods and their men and women on earth will be the height of hypocrisy. Perhaps what our parliamentarians have in mind is a replication of the joke of the Anti-Defection Act.

Flash in the Pan?

IN estimating poverty levels in the country, the meticulous work of academicians associated with the National Sample Survey Organisation (NSSO) has finally borne fruit and confirmed the superiority of the results of the NSSO's nation-wide sample surveys over the indirect estimates derived from the National Accounts Statistics (NAS). The Expert Group Report (1993) on estimation of the proportion and number of the poor has rejected the Planning Commission's practice of making *pro rata* upward adjustments to the NSS size distribution of per capita total consumption expenditure on the assumptions that (a) the higher estimates of consumption expenditure derived from the NAS should be preferred to the lower consumption figures revealed by the NSS; and (b) consistency between the two estimates can be achieved by applying an adjustment factor based on the difference between the two estimates uniformly across all items of consumption, all size-groups of per capita consumption and all states. Finding these assumptions to be not valid, the Expert Group has held that "it is better to rely exclusively on the NSS for estimating the poverty ratio by state and rural and urban areas."

The Expert Group has, however, emphasised that estimation of the incidence of poverty should be for the years for which the large-scale NSS rounds of quinquennial surveys are available, suggesting by implication that the annual surveys of the NSS on consumer expenditure (and employment-unemployment) with relatively small sample sizes may not be enough of a base for the purpose. The point is well taken, for the sample surveys fail to capture the extremes of the rich and the poor, thus tending to underestimate inequality in consumption. The underestimation is likely to be especially serious if the sample size happens to be very small.

The NSS has just published the results of its third annual survey on consumer expenditure and employment-unemployment (45th round: July 1989-June 1990) based on a reduced sample of only two households per sample village/block. These results show that average per capita consumption of cereals was the lowest in 1989-90 at 14 kg and 11.04 kg in rural and urban areas, respectively, compared with the earlier rounds. For the 43rd round (1987-88) it had been 14.54 kg and 11.33 kg, respectively. A rough and ready assessment, however, suggests that despite the reduction in per capita consumption of cereals, the incidence of poverty had declined between 1987-88 and 1989-90. Taking the Expert Group norms on poverty cut-off points, there would appear to have been considerable improvement in the poverty level, from about 37.6 per cent in 1987-88 to 32 per cent in 1989-90 in rural

areas and from 39 per cent to 30 per cent in urban areas. On the other hand, if norms derived by Minhas et al (*EPW*, July 6-13, 1991) are taken, the fall in the poverty ratio is more moderate from 48.7 per cent to 41.3 per cent in rural areas and from 37.8 per cent to 33.3 per cent in urban areas.

The proportion of the employed to the total population has shown a distinct rise while unemployment rates have registered a sizeable and all-round decline. As per the previous NSS rounds, the proportion of the employed among rural males, according to what is called the 'usual status' (those who worked for a major part of the 365 days preceding the date of the survey) for principal and subsidiary activities together, had showed a declining trend for about a decade; it was 55.2 per cent in 1977-78 and fell to 54.7 per cent in 1983 and 53.9 per cent in 1987-88. In the latest round for 1989-90, this trend got reversed and the employment ratio rose to 54.8 per cent. The rise was more marked as per the 'current weekly status' (employment at any time during a reference period of seven days preceding the date of the survey)—after declining from 53 per cent in 1972-73 to 50.4 per cent in 1987-88, it rose to 52.8 per cent in 1989-90. Among women in the rural areas, 'usual status' showed a fall in employment to 31.9 per cent in 1989-90 from 32.3 per cent in 1987-88 and a peak of 34 per cent in 1983, but on 'current weekly status' the female employment ratio registered some increase from 22 per cent in 1987-88 and to 23 per cent in 1989-90, though it still remained lower than the ratio of 1972-73 (27.7 per cent) and 1977-78 (23.2 per cent). Employment ratios in urban areas showed almost similar trends.

The reversal of the rising unemployment ratio is even more marked in the 1989-90 survey. As per 'usual status', representing the most chronic form of unemployment, the ratio among male labourers in rural areas, which had steadily increased from 1.2 per cent in 1972-73 to 1.8 per cent in 1987-88, declined to 1.3 per cent in 1988-89. As per 'current weekly status', the ratio for rural males had risen from 3 per cent in 1972-73 to 4.2 per cent in 1987-88, but in 1989-90 it fell to 2 per cent. In urban areas too the unemployment rate registered a sizeable fall for both male and female labourers.

What is also interesting is that the additional employment generated has been 'self-employment' rather than 'paid labour', regular or casual. The proportion of the employed under 'paid labour' declined, while that under 'self-employed' has registered significant increases in all categories—rural males and females and urban males and females.

The performance of the economy provides some evidence corroborating the 1989-90 survey results. Agricultural production recorded an impressive growth of 23.5 per cent in 1988-89 and 1989-90 taken together; so also foodgrains production

and availability of foodgrains for consumption. In the non-farm sector, the index of industrial production had risen by 18 per cent in these two years together. There was an increase in organised sector employment from 257.12 lakh in March 1988 to 263.19 lakh in March 1990, reversing the trend of the earlier years of the 1980s. What is worrying is that these modest improvements in poverty and employment levels may have been arrested in the last two years with the stabilisation and structural adjustment programmes now under way.

INDUSTRY

On Tax Holiday

THE performance of the corporate sector in 1992-93, which has now begun to emerge from the consolidated profit and loss accounts and balance sheets of a sizeable number of companies, shows certain peculiar features. Overall, despite the persistence of recessionary conditions in major segments of industry, growth of sales in nominal terms was about 17.5 per cent in 1992-93, which was only slightly below the growth in the previous two years. In fact, in real terms the growth must have accelerated considering that industry was unable to raise product prices beyond a point during the year. Secondly, despite fears of recession and higher manufacturing costs, corporate sector profitability has not suffered any serious setback. The operating profits to sales ratio has shown only a marginal decline from 13 per cent in 1991-92 to 12.5 per cent in 1992-93. Corporate profitability has been further bolstered by two favourable developments, namely, a sharp rise in 'other income', representing income derived from activities other than the main lines of operation, and second, a drastic reduction in the average tax burden.

A major cost element which has eaten into profits in recent years has been the interest outgo; it grew by 17.9 per cent in 1990-91, 30.3 per cent in 1991-92 and 25.5 per cent in 1992-93. As a result, growth in gross profit was moderated from 35.7 per cent in 1990-91 to 15.5 per cent in 1991-92 and 9.2 per cent in 1992-93. Likewise, the growth in profit before tax decelerated from 35.7 per cent to 15.5 per cent and 2.2 per cent.

'Other income' in respect of a set of 1,175 companies studied by the Centre for Monitoring Indian Economy (CMIE) grew by 37.3 per cent in 1990-91, 32.7 per cent in 1991-92 and 21 per cent in 1992-93. Of the increase in profits before tax, increase in 'other income' constituted 23 per cent in 1990-91, 72 per cent in 1991-92 and 271 per cent in 1992-93. A look at the profit and loss accounts of a few major companies suggests that a preponderant part of such 'other income' originates from investments, interest on loans and deposits,

gains from exchange and profit on sale of fixed and investment assets.

A marked feature of corporate sector finances in recent years has been the reduction in the incidence of direct taxation. Until the mid-1980s, tax provision as a percentage of profits before tax in respect of public limited companies generally ranged between 40 and 45 per cent. However, the CMIE study of 1,175 companies brings out that the ratio came down to 23.9 per cent in 1992-93 from 27.4 per cent in 1991-92 and around 29 per cent in 1989-90 and 1990-91. About 40 per cent (or 451) of the companies with a profit before tax of Rs 1,024 crore in 1991-92 and Rs 1,299 crore in 1992-93 did not make any provision for taxation in either year. The government could ordinarily have collected Rs 300 to Rs 400 crore of tax from these companies. In 1992-93, another 94 companies, in addition to the 451, did not have to make any provision for taxation; their profit before tax was Rs 463 crore. While all size-groups have benefited from the reduced incidence of taxation, the decline in tax pay-out has been pronounced in the case of large companies.

The Chelliah Committee on Tax Reforms, whose recommendations are likely to be implemented by the government, has regrettably not addressed this question of zero-tax paying companies and companies with an average tax burden far below the marginal tax rate on personal income taxation. It is to be hoped that when the corporate tax 'reforms' are implemented through the 1994-95 budget and when further reductions are effected in the average rate of tax on corporate profits, the finance minister would consider it fit to re-introduce the provision of a minimum corporate tax to take care of the growing number of companies which pay nil or negligible tax.

COMMON PLANT PROPERTY Piracy by MNCs

A correspondent writes:

WHILE Indian policy-makers and a section of the press may object to the violent mode of protest resorted to by the Karnataka Rajya Raitha Sangha against the seed processing complex of the US multinational subsidiary, Cargill Seeds India, at Bellary some time ago, very few among them appear to understand the full implication of the introduction of seed patents in Indian agriculture at the behest of the multinationals. People in positions of power (like bureaucrats and scientists) do not seem eager to have an open discussion on the issue, while the general public is hardly aware of the possible consequences.

The attack on Cargill's seed processing complex has to be seen in the context of the Indian government's veering towards accepting the Dunkel draft, and the

related issue of seed patents. The multinationals have been insisting on international legislation on patenting seeds since the early 1960s, when PBR (Plant Breeders' Rights) made it possible for the first time for private breeders to receive royalty payments on newly developed varieties, and to control the spread of their patented varieties. Firms like Cargill, engaged in seed processing, require stringent patent criteria that will help them to monopolise the sale of particular varieties of both non-hybrid and hybrid types, and edge out smaller enterprises from the market. Patent legislation will enable them to organise the price and distribution of the varieties that they alone produce and which dominate the market in the same way in which the multinational pharmaceutical companies managed to monopolise the sale of drugs and determine their price in the developing countries.

If the operations of Cargill Seeds India at Bellary appear too distant and esoteric for the average Indian citizen, a similar experiment being undertaken by a US firm, again in Karnataka, should cause concern even to a small child in an Indian village. It involves processing of the familiar 'neem' seed. The biopesticidal properties of the 'neem' have been patented by one Robert Larson of the US, who has sold it to W R Grace and Company which is setting up a plant in Antaras-anahalli in the Tumkur district of Karnataka in collaboration with P J Margo Private Limited. The plant will initially process 20 tonnes of seed per day for export to the US.

What are the implications of patenting and turning into private property what has been the common natural and intellectual heritage of the Indian people who for ages had been using the biopesticidal properties of 'neem'? A time may come when the seed processing firm—for its increasing requirements for export—may encroach more and more on the 'neem' trees which till now have remained the common property of villagers all over India. (Similar private commercial encroachments on common property have eroded the access of our people to their traditional food resources, like fish in the coastal areas.) Indian small-scale entrepreneurs (who had been manufacturing tooth-paste and pesticides) will be gradually marginalised because of their inability to compete with the US firm in mass-scale possession and exploitation of the common intellectual property. Further, multinational attempts at hybridisation of 'neem' (for greater profits from faster and higher production, as had happened in the case of wheat and other seeds) may lead to the gradual decrease—and final disappearance—of the original 'neem' breed. That this is no idle speculation is evident from the fact that new hybrid high-yielding varieties of wheat had driven out the numerous diverse traditional varieties that used to grow in

different parts of the world. Such piracy of the common intellectual property by transnational corporations leading to possible plant genetic erosion is being given international legal sanction by the GATT Agreement on Trade Related Intellectual Property Rights. Before surrendering to the Agreement, Indian policy-planners should beware of its long-term adverse effects on our biodiversity.

WEST BENGAL

Danger Signals

A correspondent writes:

THE West Bengal Congress panjandrum Mamata Banerjee has managed to bounce back into limelight after several unsuccessful efforts, by organising an orgy of violence in Calcutta on July 21 and extracting from it a dozen-odd martyrs (victims of indiscriminate police firing) who will provide her with another breath of fresh political life in the faction-ridden Congress organisation. The lady is now riding on the crest of popularity in her own party and has been able to inspire her rivals in the party to import her lumpen politics in the West Bengal assembly as evident from the unseemly behaviour of the Congress MLAs there the next day, when they unanimously went on a rampage inside the house.

But even when denouncing her actions, one must pause to understand why a third-rate politician (whose stint as a central minister was not marked by any notable performance) can muster enough followers in the citadel city of the Left to create a law and order problem that makes headlines in national dailies. One should also try to understand why, even after the known and well-publicised acts of violence indulged in by her followers (that provoked the police firing), the 'bandh' called by her party in protest on July 23 was a near-total success in Calcutta and other parts of the state.

The entire sequence of events—starting from Mamata Banerjee's call for a siege on Writers' Building (the government headquarters)—indicates the increasing trend of popular sanction of lumpenisation of political protest. Unscrupulous politicians like Mamata Banerjee work upon people's grievances (which are not allowed to find any outlet of protest in the political arena by an intolerant CPI(M) and manage to muster popular support for their own political gain by organising exhibitionist stunts of violence that invite police reprisal. These acts help the politicians to inflate their images as champions of popular demands and pose as victims of state repression.

It is surprising that the people of West Bengal, who claim to be politically advanced, should rally behind a charlatan and sanction her misdeeds. While one can understand their sense of despair and helplessness at the criminalisation and corruption of many CPI(M) leaders, one

is disappointed by the...unism in using Mamata Banerjee as a stick to beat the CPI(M) with. Such expediency may one day come home to roost. Mamata Banerjee, as is well known, is pursuing a so-called 'Bengal line' of her own which aims at an alliance with the BJP in order to oust the Left Front government from West Bengal. Thanks to this line, the BJP managed to gain quite a number of seats in the recent panchayat elections in the state with the support of the Congress. The long-term implications of the entry of avowedly communal forces in the electoral politics of West Bengal after one-and-a-half decades of Left rule should be understood by the politically conscious Bengali middle class—many among whom are vocal supporters of Mamata Banerjee.

In order to fight the oppressive policies of the CPI(M), out of immediate anger and frustration, if the people of West Bengal impetuously decide to replace the Left Front with the proponents of the 'Bengal line' in some future election, they will pave the way for a return to the days of the Emergency.

EUROPE

End of Grand Design?

THE exchange rate mechanism (ERM) of the European Economic Community (EEC) is in serious turmoil again. The crisis has forced the introduction of a considerably enlarged band of 15 per cent on either side of the central rates, thus allowing for almost a floating system, except for the German mark and the Dutch guilder for which the existing band of 2.25 per cent on either side has been retained. Earlier, Great Britain and Italy found the system too suffocating and left the ERM in September 1992. There have been four realignments in the recent past, resulting in the devaluation of the lira (before its suspension), the Spanish peseta (on two occasions), the Portuguese escudo and the Irish markka. The latest turmoil has also involved vigorous defence of the French franc and the Danish krone so as to contain movements in their value within the system.

Apart from country-specific factors, the interest asymmetry of the EMS has a built-in bias in favour of instability, particularly at times when the developed countries as a group face a cyclical downturn. During the buoyancy of the 1980s, Germany amassed substantial current account surpluses and as a result the deutsche mark became a major reserve currency and a vehicle to transmit outside shocks (say, from the gyrations of the US dollar) within the EMS. Though the European Currency Unit (ECU) was used to work out exchange rates and the degree of divergence, the emerging strength of the German currency made it the anchor of the system. German reunification upset

the apple-cart. The German authorities placed an increasing burden on monetary policy to curtail inflation even as the budget deficit soared to finance reunification costs. The unsettling effects of this for the EMS were heightened by the absence of controls on capital movements, resulting in enormous pressures on interest rates as well as exchange rate parities of other countries.

The turmoil has exposed the fundamental weaknesses of the system conceived in the Maastricht Treaty on Economic and Monetary Union (EMU). The desired policy convergence in terms of inflation, interest rates, government deficit and exchange rate parities is built on the edifice of a strong anti-inflationary stance. This worked, more or less, when world trade and economic growth were buoyant. But over the years inflation and interest rate differentials have widened and budget deficits have galloped. Above all, unemployment rates have reached politically unsustainable levels. Germany's unemployment rate touched 8.2 per cent in June as against 6.6 per cent a year ago. Even so, its average wage cost has risen by 7.3 per cent during the quarter ending May and in the year ending March the country recorded a current account deficit of \$ 26.2 billion. French unemployment which averaged 6.4 per cent in 1975-84 jumped to 10.2 per cent in 1985 and is at present ruling at 11.5 per cent. Countries like Spain and Italy have experienced even higher unemployment rates. For the European community as a whole, the unemployment rate jumped from 7.5 per cent during 1975-84 to 11.1 per cent in 1985 and is around that level currently.

Against this background, there was every reason to expect the Bundesbank to slash interest rates. What it has done is to pare its Lombard rate by half a point to 7.75 per cent, leaving the more important discount rate unchanged at 6.25 per cent. Beyond doubt, European governments, particularly that of France, cannot sustain high interest rates any more. They all face serious unemployment and recession. Unemployment in the EEC is officially expected to exceed 12 per cent of the working population in 1994, the highest level since the previous peak of 1985. Besides, the budgetary positions of the member countries, already precarious, is also forecast to deteriorate. The net borrowing requirement in the Community as a whole is expected to increase to an amount equal to 6.25 per cent of GDP in 1993 from 5.1 per cent in 1992.

All told, the grand design of the Maastricht Treaty of establishing by 1997-99 a European System of Central Banks, further strengthening of monetary co-operation and eventually instituting even a single European currency and a common monetary policy is as good as buried for the present.

TWENTY YEARS AGO

EPW, Special Number, August 1973

To talk, as the planning minister has been doing, of saving the core of the Plan when the Plan itself is yet to be properly formulated is an admission of the absurdity of the situation. Why bother about a meta-physical core when the rationale on which it was earlier proposed has collapsed? If, despite the current cynicism, despite the inflation which has attained Latin American proportions, the salvation of the nation still lies in accelerated development, the internal logic of the Fifth Plan will have to be worked out afresh. The financial target indicated in the Approach document may actually be over-reached during the five-year period of the Plan because of the spiralling inflation. But this would be neither here nor there. For, even assuming that there was some consistency between the assorted physical targets in the Approach paper and the corresponding financial outlays at the time these were spelt out, the events of the past six or eight months have completely snapped the link between the physical programmes and the financial outlays. Not merely a re-setting of the sights, but a total overhaul of the postulates of the Plan would now seem to be called for. . . . It is, of course, nobody's case that the rate of growth of the economy does not need to rise above the near-zero levels of the recent past. Indeed without such acceleration, the nation will be able neither to step out of the present regime of scarcities, nor to ensure the wherewithal for a faster, more self-reliant growth in subsequent years; and without it there can also be no hope of bettering the consumption standards of the poor. But growth of national income is not a sovereign, independent variable. . . . By now, the lesson should have been driven home and the emphasis should have been shifted from an overall rate of growth, for which no instruments can be assigned specific responsibility, to rates of saving and capital formation. The role of the internal pattern of investments and the choice of technology is not to be denied, but certain rigidities govern these elements at any point of time. In the final analysis, the capability of the nation to generate savings remains the principal determinant of the overall rate of growth.

Calcutta Diary

AM

Have your choice. Treat this as a status report; alternatively, as the point of exit.

IT all depends on which turf you choose for yourself. The chief election commissioner can be invested with accolade for being the Great Saviour, engaged in a last-ditch effort to salvage whatever remains of parliamentary democracy in the country. Or he may, with legitimacy, be regarded as a top secret agent working on behalf of, first, the Liberation Tigers of Tamil Eelam, and second, all who would like to make a comprehensive bonfire of the Indian republic. The rest of the country can have elections, Tamil Nadu does not quite belong; if Christ stopped at Eboli, the ambit of the Representation of the People's Act, the nation is being confidentially informed, is assumed to stop at about where North Arcot perhaps begins. There is of course scope for differing with this formulation. When the chips are down, every Tamil citizen, it could be maintained, will turn into a desiccated calculating machine; the external economies of being a part of the great spoils system which is India are not to be scoffed at. Does not such an argument however sound excessively elitist? Has not the romantic imagination spawned by Gemini Studios succeeded in convincing the faithful masses to steer clear of self-serving pragmatism? The millions enchaind by this imagination might behave much like the young men and women in the north-east are currently behaving. Or like the young men and women—with the oldies thrown in as well—in Kashmir. And that would hardly be the end of the story, but the beginning. Conceivably some exciting blueprints are, at this very moment, being drawn up. The K P S Gills, for all one knows, could be persuaded to leave the allure of Punjab temporarily behind and join to serve a greater, nobler national cause. The Khalistanis have been denied Punjab; the *eelam* fanatics ought, much in the same manner, be denied Tamil Nadu, or so it is being planned. An answer to the crucial question would however still go abegging: why unleash the chief election commissioner on Tamil Nadu in this unseasonal time; what was—and is—the nature of the moral compulsion?

Questions of this nature are always difficult to field. Certain impulses operate altogether in autonomous fashion, responding to neither rhyme nor reason, refusing to obey the law laid down by a central nervous system. Why, for example, did the politicians in command in the nation's capital conclude way back in 1980 that a Bhindranwale was to be preferred to the Akalis? Why was it thought so eminently sensible in 1984 to sabotage a democratically elected National Conference regime in Kashmir and thereby set in motion the processes of anarchy that have now engulfed the valley? Or why not go back to the prehistoric fifties. Who amongst the supposedly smarter ones in South Block went gaga over the Nagas and authored the policy of pacification, meaning the placement of a permanent army of occupation across the hills and tracts of the Seven Sisters? If such questions tire one out, the gaze can be turned to mundaner prospects. Here is a sample: why must that Swedish arms fabricating company feel obliged to make payments into a Swiss bank account held in the name of a certain Italian gentleman apropos of a contract it had signed with the government of India? What, in other words, is the nexus between precipitation in Karachi and a good harvest in Chittagong?

The answers to the queries are always dusty. The man in the street is therefore left to his own devices; he fills in the blanks according to his own whimsy. If you would want to dub this propensity as anarchic or even nihilistic, please go ahead; the choice is very much yours, India is formally still a free country. At least you are still allowed the liberty of free-swinging associations of thought. In the view of some earnest citizens, there is therefore no question of going gentle in the night; let everybody better continue to rage and rage before the dying of day. In other words, these earnest citizens make their choice. The modalities they opt for vary, much like the diverse languages they speak. They are adamant to prove a simple, but essential, point: New Delhi is no longer India, New Delhi's writ has

ceased to determine India. Despite prime ministers and home ministers and national integration councils and chief election commissioners, the country has already been rendered into a true federal entity, and the federating units are each greater than the whole. One can, for the purpose of satisfying one's ego, pretend to adhere to the anachronism of democratic centralism. Cliches however have had their day. Neither stratagems a prime minister latches on to to demonstrate his majority support in parliament connote much of democracy, nor blandishments of a chief election commissioner are even marginally capable of enforcing centralism. Even the time to say hurry up, 'it is time, is past. The young men and women concerned will accordingly not lack justifications for being on the rampage in the different parts of what, on account of the inertia of the United Nations and its specialised agencies, will continue to be described as India. None will seriously demur if an alternative name, for instance, Hades, is suggested. The more liberal minded will be inclined to quote Shakespeare; they will be snubbed in the nick of time, cliches are *verboten*.

Such circumstances notwithstanding, or precisely because of such circumstances, the absurd country may yet survive, but just barely. This could happen since the world's only superpower would not make up its mind. The temptation to rush back to Shakespeare—if you have tears, prepare to shed them now, etcetera—will be intense. That will be paying homage to another cliché. The superpower is nonetheless in a major jam. The textbooks are informative enough regarding the mechanics of monopolisation. They explain, equally lucidly, the conditions of monopoly equilibrium. What ensues though in *After Life*? The superpower is perched on the ultimate peak, all competition has ceased, the world henceforth consists of thousands and thousands of Boris Yeltsins and just one stray Fidel Castro. Even so, and despite the parametric values of the variables of the system being known in such thorough detail, *After Life* remains clouded by grave uncertainties. Monopolisation is of little avail, the world's only superpower is unable to climb out of either unemployment or demand recession. The superpower carries enormous clout, the degree of monopoly it enjoys is absolute. That makes it even more wobbly in every big or little step it takes. Despite its being the only superpower in the neighbourhood, it in fact

dares not take any big steps, it confines itself to empty bluster and minor pin-pricks. Innovations and initiatives are not its cup of tea. The servility of third world finance ministers is therefore somewhat bereft of a context. History may or may not have reached a dead end; colonialism apparently has, at the very moment the rest of the world has been converted into one seemingly interminable stretch of a colony belonging to the superpower. We stumble here on the contradiction. Colonies are for rape and exploitation. The superpower however appears to have forgotten the script. Or, rather, somebody, who ought to know better, has forgotten to write the script. Neo-colonies such as India are dying to present their credentials and faithfully serve the master. The superpower has other things on its mind. Cancelling a stray cryogenic rocket deal, and forcing a country to forgo the pretensions of an independent foreign or defence policy are hardly worth writing home about. These are trivialities. The superpower cannot settle its principal agenda. It has, till now, underwritten the living standards of the top one or two per cent of the colony's wretched populace. But this practice only ensures an unstable equilibrium; the vast majority of the colony's populace are likely, sooner or later, to protest against such discrimination. Considerable mechanical engineering will be called for to forestall that prospect. Huge quantities of capital will need to be ingested before the colony's stability could be taken for granted. Others can tear their hair, the superpower is in no hurry. It has not only set for itself other priorities; it has been unable to finalise its view on whether this particular supplicant of a colony is deserving of underwriting in its present state, or whether it should be allowed to disintegrate. Decisions on such matters are not readily forthcoming. The superpower is taking its time to get used to the notion of its being the only one of its kind. On the other hand, it is not altogether sure that, once it declares its lack of interest in the colony, a China or a Japan might not be tempted to indulge in some monkey pranks. We are once more referred back to the dog-eared economics textbooks; it is an echo of the Cobweb phenomenon, a minor imbalance in the central metabolism instantaneously transmits explosive messages to far-out dependent categories. They are dependent, but their candidature for the status of full-fledged colonies is yet to be looked into. It is a frustrating situation; forces,

sinister or otherwise, try to take advantage of it. Chief election commissioners assume their role to be that of major league players. They are actually minor hacks. The decisions and non-decisions are reached roughly ten thousand miles away. In this instance at least, everything happens according to a script.

Shakespeare remains a menace though; in a sense, his is the truest colonial heritage. The queen, my lord, is dead. Ah, is she? Queens are dime a dozen, and they keep dying all over. Ceremonial funerals are out, the royal corpses, robbed of their regality, absent-mindedly pile up on the pavement. Whether this qualifies as a tragedy depends, to repeat, on one's perspective. According to some versions, the queen may not quite be dead; writhing in agony, she could yet be vaguely hopping, even as she slips into decisive unconsciousness, that perhaps, even at this forlorn hour, the king will despatch the royal physician to do a miracle with her body. Amendment: the queen, my lord, is not dead; she is in her last throes. Both the spectacle and the message lack in dignity; they are distinctly off-colour. But obscenity is the wages optimism pays to experience: for, once upon a time, one had cherished hopes—and built dreams.

The royal physician is not a-coming; the king has other chores to tend to. Or maybe the king has already dispensed with the royal physician, and with the royal astro-

loger too for that matter. What happens, nonetheless, to dreams? Should those too be adjourned—or dubbed as false alternatives? Should or should not one move away from the parrot act of uttering that there are no true alternatives? The doubts persist. For, it could be argued, the issue is not to poke fun at, but believe in, alternatives. It is akin to believing in an ideology. An ideology is not tarnished because it has been mishandled or misinterpreted. The malpractitioners receive, in due season, their just deserts. Once the season terminates, there ought to be a return to the original queasiness and the ideology it was wrapped in. Current prime ministers and incumbent chief election commissioners are reduced to irrelevance in that context. Just as there has to be a life beyond for the superpower, the nation too would live once such specimens wear themselves out. There is a case for shooting the piano-player, in case that is the only way to save the piano from irretrievable damage—and the purity of the score. The point can be made even more emphatically by recourse to an otiose example. One does not throw away Cecil Day Lewis's poetry, which invokes camaraderie and the revolution, merely because his offspring appears in pornographic films.

Have your choice. Treat the ravings above as a status report; alternatively, as the point of exit.

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Import-Substitution

Jairaj Kapadia

TITAN Watches, with a 60 per cent market share in quartz analog watches established for itself, has witnessed its profits slide in the face of increased sales turnover. Sales during the year to March 1993, expanded 23 per cent from Rs 15,501 lakh to Rs 19,121 lakh. But gross profit showed a marginal rise of Rs 26 lakh from Rs 1,784 lakh at Rs 1,810 lakh, while as a ratio to sales it declined more than two percentage points from 12.76 in the previous year to 10.51. Profit after depreciation and without a tax provision required to be made registered a decline from Rs 1,110 lakh at Rs 1,087 lakh. Since the company converted part B of the debentures issued in 1989 and also issued rights shares, the paid-up share capital

increased sharply from Rs 2,684 lakh to Rs 4,228 lakh.

In the face of this and despite a setback in net profit, the directors have enhanced the dividend from 20 per cent in the previous year to 22 per cent. This became possible since the increase in share capital came about later during the year and again with a gap of two months with the bulk amount of rights shares (1,42,93,900) taking place on December 22 last and the debentures conversion into shares (11,37,820) earlier on October 1. On the additional shares the dividend is declared *pro rata* at the rate of 60 paise on the rights shares and at Rs 1.10 on the debentures converted shares. But with the large amount of share capital

now existing, the dividend pay-cut has gone up substantially from Rs 537 lakh to Rs 689 lakh.

But there is nothing to despair about the setback in profits which the directors put down to recession in consumer durables, high interest rates, increase in operating costs and sharply raised excise levies. Despite the depressants, the company produced and sold more watches at 26 lakhs and 25.70 lakhs, respectively, compared to 22.60 lakhs and 22.42 lakhs in the previous year. It expects to sell this year 30 lakh watches and to gross a turnover of Rs 300 crore against its increased capacity now of 35 lakh watches. It will be grossing the present capacity sales in 1994-95, while plans are under way to build up the capacity further to 40 lakh watches.

It is expanding its present range of watches with jewellery watches. The jewellery and jewellery watch plants at Hosur with respective capacity of 3,00,000 primary jewellery pieces and 25,000 jewellery watches per year are expected to go into production in the last quarter of 1993. Case manufacturing capacity, enhanced during 1992-93 from 1.20 million to 1.60 million cases, is to be raised further to 2.20 million cases. Significantly, at the same time, Titan Time Products, the joint venture project with the Economic Development Council of Goa, Daman and Diu, has commenced manufacture of electronic circuit blocks, and against 3 lakh blocks provided up to March 1993, it is to make available to the company 25 lakh blocks during 1993-94 whereby Titan Watches will become totally independent of ECB imports this year.

This is to mark a major step forward in manufacture of watches, since the company earned by way of exports during 1992-93 Rs 664.53 lakh in foreign exchange, but used an amount worth Rs 4,489.60 lakh. In step motors, too, substitution of imports with in-house manufacture is expected. Competing against Japanese makes, Titan watches are finding increasing acceptance in West Asia from non-Indian buyers, and while consolidating the position in the market there, the company is making a beginning in exports to the UK as it expects to become a net foreign exchange earner in 1994-95.

Ongoing capital expenditure, which consumed Rs 70 crore during 1992-93, is to absorb another Rs 225 crore. Of this Rs 107 crore is earmarked for capacity expansion and indigenisation, Rs 23 crore for jewellery watches, Rs 33 crore for jewellery manufacturing unit, Rs 35 crore for infrastructural support and Rs 27 crore for investment in associate companies, namely, Timex, Titan Holdings BV, Titan Time Products and Titan Properties.

The Week's Companies

(Rs lakh)

Financial Indicators	Titan Watches		Premier Auto Electric		Golden Proteins	
	March 1993	March 1992	March 1993	March 1992	March 1993	March 1992
Income/expenses/profits						
Net sales	17216	13983	6000	4888	1024	768
Excise duty	1905	1018	60	116	—	—
Other income	160	49	78	87	3	1
Increase (decrease) in year-end finished stock	523	996	12	NA	(71)	81
Raw materials consumed	8193	7398	4898	4038	735	707
Power and fuel	154	114	27	20	74	55
Other manufacturing expenses	1472	1153	1	2	42	25
Labour cost	1284	819	278	267	33	24
Other expenses	4522	2510	320	256	52	34
Operating profits	3656	3556	551	390	19	6
Interest charges	1846	1772	161	135	140	108
Gross profits	1810	1784	390	255	-121	-102
Depreciation	723	674	67	26	30	25
Profits before tax	1087	1110	323	229	-151	-127
Tax provision	—	—	72	93	—	—
Profits after tax	1087	1110	251	136	-151	-127
Dividends	689	537	99	71	—	—
Liabilities/assets						
Paid up capital	4228	3253*	508	338	380**	189
Reserves and surplus	7782	1215	862	296	117	119
Long term loans	9078	6728	135	140	230	228
Short term loans	2366	5344	485	524	577	447
Other liabilities	3604	2991	1059	1142	133	308
Gross fixed assets	15888	11565	780	408	522	510
Accumulated depreciation	2751	2046	143	78	132	102
Inventories	8639	7163	856	949	27	136
Of which finished goods	5968	5446	767	755	10	81
Receivables	1406	565	1225	944	73	130
Loans and advances	3019	1595	151	158	12	31
Cash and bank balances	850	684	50	31	195	3
Investments	6	6	124	15	—	—
Other assets	—	—	7	13	739	582
Total liabilities/assets	27057	19532	3049	2441	1437	1291
Key financial ratios						
Turnover ratio	0.64	0.72	1.97	2.00	0.71	0.59
Return on sales %	10.51	12.76	6.50	5.22	-11.82	-13.28
Return on investment %	6.69	9.13	12.79	10.45	-8.42	-7.90
Return on equity (%)	9.05	28.47	18.32	21.45	-49.35	-41.23
Earning per share	2.57	4.14	4.92	4.03	-7.97	-6.69
Dividend (%)	22	20	25	20	—	—
Book value per share (Rs)	28.41	14.53	26.79	18.75	16.13	16.23
Current market price	85	—	39	—	NA	—
P/E ratio	33.07	—	7.93	—	—	—

* Rs 569 lakh convertible portion of debentures, to be capitalised.

** Rs 191 lakh advance for equity shares, before capitalisation.

Meanwhile, the company has changed its name simply as Titan Ltd.

PREMIER AUTO ELECTRIC

Beating the Recession

Premier Auto Electric, which is manufacturing polyurethane automobile components and acoustics, is beating the recession in the automobile industry. It has reported a 20 per cent growth in turnover for the year ended March 31, 1993, as well as a sharply increased gross profit and declared a higher dividend of 25 per cent against 20 per cent for the previous year on share capital which has gone up 50 per cent following a 1:2 rights issue of equity shares at a premium of Rs 25 per share. The first two months' turnover this year has been up further by 26 per cent from Rs 8.38 crore to Rs 10.58 crore. Furthermore, from June 11 this year, it has purchased from Best and Crompton Engineering the plant and machinery of this company's auto products division together with the know-how in respect of manufacture of starter motors and alternators.

It was already carrying on the business of distribution of the products for Best and Crompton Engineering. It has now taken over their manufacture under the existing brand name 'Beacon' for a period of 30 months for a consideration of Rs 100 lakh. It is making an investment of Rs 3.5 crore, including working capital, from out of internal accruals and institutional loans, to run the project. The company will also be gaining from the business with original equipment manufacturers and State Transport Undertakings.

Against all the complaints of recession afflicting the automobile industry, the company is continuing its drive to add new lines. It has also entered the business of lease finance, disbursing Rs 275 lakh to financially sound clients, while as part of further diversification it proposes to enter the area of financial services and export of merchandise. Since its bulk products are not easy to export, it has taken to exporting rough granite blocks to countries like Taiwan earning Rs 24.14 lakh in foreign exchange during 1992-93.

According to the chairman, J M Vakil, the secret of the company's success lies in adoption of the profit centre concept of management which, he says, is rigidly followed and has given it good results. Following the rights issue, its own funds have more than doubled during the year from Rs 634.08 lakh to Rs 1,370.01 lakh, as there has been an accretion of Rs 170 lakh in share capital plus an addition of Rs 433 lakh in share premium account. With that loan funds have come down from Rs 665 lakh to Rs 620 lakh, while despite an increase in bank borrowings from Rs 324 lakh to Rs 335 lakh, the interest burden is contained at Rs 161 lakh compared to Rs 135 lakh in the previous year.

GOLDEN PROTEINS

Turning Competitive

New Delhi-based Golden Proteins is deep in the red, having incurred during the year to

March 31, 1993 more losses after providing for depreciation of a figure of Rs 151 lakh against Rs 127 lakh in the previous year, and having increased the accumulated loss from Rs 577 lakh to Rs 735 lakh. This is almost twice as much as the paid-up share capital, if one were to include in this the amount of Rs 191 lakh shown as advance received for equity shares, while the figure of Rs 117 lakh in reserves and surplus comprises Rs 84 lakh as revaluation reserve, Rs 11 lakh as investment allowance reserve and Rs 23 lakh as subsidy on trawler.

This is despite the processing of 24,968 tonnes of oilseeds and oil cakes compared to 10,038 tonnes in the previous year, and producing more unrefined oil at 3,543 tonnes compared to 1,267 tonnes previously and also deoiled cakes at 22,366 tonnes compared to 8,753 tonnes. Utilisation of the solvent extraction plant's capacity also increased from 22 per cent to 55 per cent. But the operations could not attain the desired levels due to delay in the implementation of a sanctioned rehabilitation package. The company refined 1,146 tonnes of crude vegetable oil as against 324 tonnes in the previous year. But the division could not operate due to non-availability of finance from the bankers. In the fishery division, the trawler completed two voyages earning Rs 15.35 lakh as against three voyages bringing an income of Rs 19.82 lakh in the previous year.

But as against these negative features there are some positive points for the year. The solvent extraction plant attained efficiency in every area of processing. The average rate of daily processing increased to 110.47 tonnes from 81.60 tonnes in the previous year. The cost of coal consumption per tonne declined from Rs 266 to Rs 155, which was in spite of a hike in the cost of procurement of coal. Declines occurred also in the cost of consumption of hexane and in that of electric power (despite the increase in the tariff rates), in the former from Rs 104.70 to Rs 91.48 per tonne, and in the latter from Rs 3.05 to Rs 2.42 per unit. Considerable saving was also effected in the consumption of stores and spares.

The directors are hopeful of the prospects of the company, as the rehabilitation package has also now materialised making it possible to attain 70 per cent capacity utilisation of the solvent extraction plant. Besides, financial participation by foreign collaboration has also now come through. The company had entered into a joint venture collaboration with Pologovsky Oil Extraction Plant, Ukraine, in order to upgrade technology and buy-back marketing operations to strengthen exports and profitability. The company is issuing 18,13,800 equity shares of Rs 10 each at par to the Ukrainian company.

KSFC

Entrepreneurship Development

Karnataka State Financial Corporation (KSFC) has registered yet another year of

commendable performance in 1992-93. The corporation has earned a net profit of Rs 18 crore before providing for taxation in 1992-93 as compared to Rs 12.78 crore the previous year. Gross sanctions for the year inclusive of bridge loans of Rs 5.81 crore amounted to Rs 342.06 crore in 15,233 cases. Cumulative sanctions reached Rs 1,954.40 crore in 78,550 cases. Assistance sanctioned by the corporation in 1992-93 is expected to create employment for 2.80 lakh persons as compared to 2.77 lakh persons in the previous year. Investment catalysed by this assistance is expected to be around Rs 560 crore. The resultant value of output will be around Rs 1,680 crore.

Development of local entrepreneurship has been among the primary objectives of the corporation. Efforts in this direction have resulted in extending assistance to 14,921 local entrepreneurs to an extent of Rs 331.37 crore during the year accounting for 99.79 per cent in terms of numbers and 98.55 per cent in amounts of the assistance for the year.

Disbursements made during the year at Rs 299.81 crore were higher by 22 per cent over the previous year's performance of Rs 246.34 crore. Cumulative disbursements at the end of March 1993 reached Rs 1,506.33 crore.

The corporation continued its efforts to rehabilitate potentially viable sick units. During the year, 94 such units were provided rehabilitation assistance of Rs 5.58 crore including Rs 3.29 crore to 17 units affected in the December 1991 riots in connection with the Cauvery river water dispute. With this, the assistance sanctioned since the inception of the scheme touched Rs 58.60 crore to 1,344 units.

During the year, Rs 237.26 crore were sanctioned to 11,530 SSIs. This is 77 per cent in terms of numbers and 70 per cent in terms of amounts of the total sanctions for the year. Cumulative assistance to the SSI sector stood at Rs 1,190.27 crore in 54,617 cases at the end of March 1993. During the year, 2,007 cases were assisted in the tiny sector to the extent of Rs 56.24 crore. Assistance to artisans and the village and cottage industries sectors was Rs 13.68 crore in 8,696 cases.

As a regional development bank the corporation continued with promotional activities on its own as also in association with other developmental agencies. These programmes are generally directed towards identifying and motivating potential entrepreneurs and training them to acquire skills. The programmes included entrepreneurship development programmes (EDPs), industrial seminars, motivation campaigns, conferences of assisted units, participation in exhibitions and trade fairs and special programmes for weaker sections of society.

The corporation has set the following targets for the year 1993-94: sanctions Rs 350.00 crore and disbursements Rs 315.00 crore.

Timex Watches

TIMEX WATCHES, another Tata group venture in watch manufacturing and a joint venture between Titan Watches and Timex Watches BV of the US, is coming into the market on August 17 with an issue of 40 lakh 12.5 per cent partly convertible debentures of Rs 140 each at par and offering conversion of part A of Rs 40 into four equity shares of Rs 10 each on allotment and part B of Rs 100 for redemption after seven years. Timex Watches BV is the largest watch selling company in America while Titan Watches commands in this country a 60 per cent market share in quartz analog watches. From the original proposal of assembling watches and manufacturing plastic and metal watch parts, the joint venture company Timex Watches in India has enlarged its scope of manufacture to cover straps, dials, keepers and case backs, while its project cost, originally appraised by the ICICI in 1989 as Rs 47.60 crore, has gone up to Rs 82.50 crore. It is setting up a plant at Noida in Uttar Pradesh to manufacture 2.5 million quartz watches per year. This is being covered with Rs 40 crore equity, Rs 40 crore of the non-convertible portion of the debentures issue, and Rs 2.50 crore of institutional loans. Titan Watches and Timex Watches BV are to have a 29.75 stake each in the company. Production of original phase I proposal commenced in October 1992 and of the subsequent phase II it is to start in March 1994. During 1992-93, the company made sales of Rs 15.87 crore and carried a loss of Rs 5.02 crore. Crisil has given the debentures issue a BBB+ rating covering moderate safety of payment of interest and the principal amount for the present. The company is to cater to the lower price segment of the market covering watches costing less than Rs 700. It is to be using Titan Watches marketing network for selling its watches. Sales are projected for 1993-94 at Rs 50 crore, for 1994-95 at Rs 77 crore and for 1995-96 at Rs 92 crore, with net profit estimated respectively at Rs 3.57 crore, Rs 12 crore and Rs 19 crore and EPS at Re 0.89, Rs 2.97 and Rs 4.48. ICICI Securities, DSP Financial and ANZ Grindlays are the lead managers of the capital issue.

Mehta Integrated Finance

Mehta Integrated Finance which Darshan Mehta promoted in 1985 is expanding business from lease and hire purchase so far to lease and hire purchase of plant and equipment, vehicles and other financial assets, in addition to taking up new areas of freight financing and lease and hire purchase of equity shares of companies. It is also considering taking up merchant banking.

Bank of Baroda appraising its proposals has estimated its fund requirements at Rs 10.05 crore. Towards this it is issuing additional share capital of Rs 3.75 crore, as against the existing amount of Rs 1.25 crore, and offering Rs 2.74 crore of it in equity shares of Rs 10 each at par to the public, and the remainder Rs 1 crore to NRIs. The subscription lists open on August 7 under Bank of Baroda and India Securities as lead managers. For the balance of the fund requirements the company is raising Rs 4.68 crore of term loans, Rs 1.50 crore of public deposits and Rs 1.41 crore of internal accruals. The public issue will be bringing down the promoters' stake from 100 per cent at present to 25 per cent. For 1992-93 the company reported a gross income of Rs 43.60 lakh and a net profit of Rs 31.33 lakh (annualised). For the years 1993-94, 1994-95 and 1995-96 it has projected income at Rs 4.81 crore, Rs 6.30 crore and Rs 7.91 crore, respectively. The corresponding figures of net profit are Rs 2.57 crore, Rs 3.20 crore and Rs 3.90 crore. EPS for the three years is estimated at Rs 5.13, Rs 6.40 and Rs 7.80, respectively. The equity shares are to be listed on the stock exchanges in Bombay and Ahmedabad.

Indo Bosch Gems

Indo Bosch Gems and Jewellery is a new enterprise that goes beyond the government's enlarged policy for attracting foreign funds. An offshoot of this policy, it is a foreign promotion with investment in equity jointly with Indian parties and that, too, in a 100 per cent EOU in the field of jewellery export. The company is promoted by Ka Ce International of Sweden, Sara International of Turkey, Anil Bhatnagar, an NRI, and S K Gupta, a resident in India. The Swedish firm is specially formed by Kurt Karlsson to establish the joint venture in India. The foreign promoters' stake in the company is to be 21 per cent (Rs 1.15 crore) of its share capital. The company is establishing a project for manufacture of gold-studded jewellery with an installed capacity of 1,000 kgs at Noida Export Promotion Zone. The project is appraised by Escorts Financial Services to cost Rs 5.40 crore. This is being met for Rs 5.30 crore with equity funds and the balance of Rs 10 lakh with state subsidy. In addition to the foreign promoters contributing Rs 1.15 crore, the NRI participant is investing Rs 40 lakh in the share capital and the Indian party Rs 55 lakh. The company is issuing 52.99 lakh equity shares of Rs 10 each at par and offering 22 lakh shares to the public and 10 lakh shares to the NRIs. The issue opens on August 9 under Indbank Merchant Banking Services and 21st Century Finance as lead managers. The company will be meeting the requirement of gold for manufacture of jewellery from government agencies, such as

State Bank of India and the MMTC, or by direct import. Diamonds and coloured stones will be procured from Bombay, Surat and Jaipur. Special rubber as adhesive will be imported. The entire production is for export under an agreement made with the government. The agreement covers a period of five years. Escorts Financial Services making the project appraisal has estimated sales for 1994 at 20 per cent capacity utilisation at Rs 16.82 crore, for 1995 at 30 per cent capacity utilisation at Rs 25.24 crore and for 1996 at 50 per cent capacity utilisation at Rs 42.06 crore. Net profit is projected for the three years at Rs 2.99 crore, Rs 5.32 crore and Rs 9.66 crore, respectively, and EPS at Rs 5.64, Rs 10.04 and Rs 18.23. The company expects to pay a maiden dividend of 15 per cent for 1994 and to raise it for the subsequent two years to 25 per cent and 35 per cent.

Diamond Cables

Diamond Cables of S N Bhatnagar is taking up an expansion-cum-diversification project which SBI Capital Markets has appraised to cost Rs 6.53 crore. This is being financed by the company with Rs 4.78 crore of equity (the promoters contributing Rs 1.78 crore) and Rs 1.50 crore of deferred payment guarantee. Against the existing share capital of Rs 40 lakh, the company is issuing 43.75 lakh equity shares of Rs 10 each at par, offering 20.50 lakh shares to the public and 5.30 lakh shares to the NRIs and to mutual funds a reserved quota of 4.20 lakh shares. Its paid-up share capital will stand enhanced by this issue to Rs 4.80 crore. SBI Caps is the lead manager of the capital issue which opens on August 10. The project entails increase in the capacity of conventional conductors from 2,860 tonnes per annum to 4,602 tonnes per annum. There is also to be an increase in the capacity of aluminium alloy conductors from 600 tonnes per annum to 1,900 tonnes per annum. In addition, the company is installing a capacity of 1,500 crore km per annum of PVC and XLPE cables. Future plans cover an optic fibre cables project to cost Rs 55 to 60 crore. The company is shifting manufacturing facilities from the existing site in Baroda to Vadala village, which is a state-notified 'A' category backward area. The machinery for the proposed expansion and diversification is to be supplied by an associate partnership firm, Amit Associates. Commercial production is expected by September. The company claims to have orders on hand worth Rs 7.36 crore. A turnover of Rs 22.32 crore is projected for 1993-94 to yield a net profit of Rs 1.46 crore and EPS of Rs 3.06. The company also hopes to declare a dividend of 15 per cent for 1993-94, its turnover two years later is to be limited to Rs 29 crore and so also net to Rs 2 crore with EPS of Rs 4.33. The dividend for 1995-96 is expected at 18 per cent.

—JK



**Speech Delivered by
Shri T S SANTHANAM,
Chairman,**

**at the Fortieth
Annual General Meeting of
Sundaram Finance Limited
held on 30th July 1993,
at Madras**

Ladies and Gentlemen,

I have great pleasure in welcoming you all to the Fortieth Annual General Meeting of your company. The Directors' Report and the Audited Accounts for the year ended 31st March, 1993 have been with you for sometime and, with your permission, I shall take them as read.

WORKING RESULTS

Your company has registered a growth of 41% in hire purchase business despite the recession in the automobile industry. This impressive performance was possible because of the expansion of activities in the Western and Central India and Delhi, and intensive marketing efforts. Disbursements under leasing have gone up by 47% because of the pick-up in industrial activities.

Taken together, disbursements under hire purchase and leasing crossed the Rs. 400 crores mark - a new record for your company. Combined outstandings under stock-on-hire and lease receivables consequently increased to Rs. 723 crores. Of this, lease rental receivables at Rs. 169 crores represents the highest for any private sector leasing company in the country. Financial assistance to the road transport sector continues - and, for your company will continue - to form the mainstay of its operations.

In the area of deposit mobilisation, your company's performance during the year constitutes a new record. Fresh deposits mobilisation exceeded Rs. 63 crores while net accretion amounted to an all-time high of approximately Rs. 37 crores. Your company enjoys the highest reputation among the depositors as a reliable, efficient and service-oriented company over a period of forty years. I would like to express my gratitude to the 300,000 depositors spread all over the country for the trust and confidence reposed in your company. You will be happy to know that your company occupies the number one position among the Non-Banking Financial Companies in the private sector in mobilising deposits from the public.

The Gross profit of your company at Rs. 62.51 crores represents an increase of more than 25% over the previous year. The Profit after tax at Rs. 20.10 crores represents an even higher incremental growth of 33%. The dividend distributed for the year ended 31st March, 1993 is the highest pay-out in its forty years of existence. You will also be happy to know that your company has been paying dividends continuously, year after year, from its inception.

ECONOMIC SCENARIO

The series of economic reform measures initiated by the present Government at the Centre during the last two years have started yielding results. The overall economic growth rate during 1992-93 is reported to be over 4% as compared to the poor performance in the previous year. Inflation has been brought down to about 7% from the double digit levels prevailing during the previous year. The fiscal deficit for the year 1992-93, according to the budget-speech of the Union Finance Minister, has come down to 5.5% of the Gross Domestic Product. Exports have also picked up appreciably even in real terms. For the first time in several years, there has been a surplus in our balance of trade in April this year. All this was achieved despite unfortunate developments on the socio-political front, culminating in the bomb-blasts that rocked Bombay early in March. Notwithstanding the liberal economic policies formulated by the Government during the past two years, there is a slowing down in the implementation of some of the economic reform measures. The country cannot afford this retardation.

FINANCIAL SECTOR REFORMS

Following the report of the Narasimham Committee, the Working Group on Financial Companies under the Chairmanship of Dr. A.C. Shah submitted its Report in September '92. The Report,





Sundaram Finance Limited

21 Patullos Road, Madras 600 002.

widely publicised, has been accepted in principle by the Reserve Bank. It embodies a number of far-reaching recommendations that will fundamentally affect the growth and operations of Non-Banking Financial Companies. I broadly welcome the recommendations made in this report. But, I must enter a caveat against the nature and consequences of some of them, especially if implemented without being properly formulated or sequenced. For instance, before dismantling the existing categorisation of Non-Banking Financial Companies and prescribing a uniform set of financial ratios and norms to all, it is necessary to draw up and put in place suitable business policy guidelines and accounting standards. These should cover not only traditional lines like hire purchase and leasing but also new business opportunities in the financial services area that a number of companies have entered. The guidelines should clearly deal with important aspects like:

- income recognition
- amortisation of leased assets
- provisions for depreciation/ erosion in asset values and
- ban on speculative activities including Badla transactions.

It is necessary to evolve a framework of capital adequacy norms based on a carefully formulated allocation pattern of risk weights for various categories of assets. I do hope that the authorities concerned would give these matters the serious consideration that they deserve.

ROAD TRANSPORT INDUSTRY

As I mentioned earlier, financing the road transport sector is and will continue to remain the core business activity of your company. After food, clothing and shelter,

transport is of vital importance to the common man and also in the order of economic priorities. The road transport sector in India has witnessed a steady increase in its share of freight movement - from less than 30% in the fifties to over 60% now. This reflects a reversal in the relative shares of the road transport sector and the Railways, during the last 40 years. I see this process continuing, at least in the foreseeable future, since the Railways may not be able to mobilise the resources necessary for reversing this trend. I would, hence, appeal to the authorities concerned to continue extending all possible help and encouragement to the road transport industry and to companies like yours engaged largely in providing financial assistance to this sector.

In this context, I would like to repeat the fervent plea I have been making for abolishing levies like octroi and pathkai which not only impede the free flow of vehicles but also result in avoidable wastage of fuel. There should be greater allocation of resources for road development. The Planning Commission has sanctioned only Rs.2600 crores for this purpose during the VIII plan, the bulk of which is to be spent on maintenance alone. The Government must give the highest priority for maintenance and development of the road network.

BUSINESS PROSPECTS

In the first three months of the current financial year, your company has written hire purchase business of Rs.90.46 crores and leasing business of Rs.10.68 crores as against Rs.63.81 crores and Rs.8.46 crores respectively in the previous year.

Given political stability and a normal monsoon, the economy should move forward and attain a growth rate of 5% as envisaged by the Finance Minister in his

budget speech. I expect a reasonable growth in hire purchase and leasing business for your company this year.

SUBSIDIARIES

Your subsidiary companies, India Equipment Leasing Ltd and Sundaram Finance Services Ltd have performed satisfactorily during the year under review and earned a profit after tax of Rs.146.61 lakhs and Rs.21.25 lakhs respectively.

The financial services subsidiary has plans for diversification to take advantage of opportunities in the capital and forex markets. This company is fortunate to have San D N Ghosh, the former Chairman of State Bank of India and a seasoned administrator, as its Chairman. Its activities bear the stamp of prudence and conservatism so essential for any well-run finance company.

ACKNOWLEDGEMENT

On behalf of the Board of Directors and on my own behalf, I take this opportunity to thank our customers, depositors, bankers, financial institutions, mutual funds and shareholders for the co-operation extended to and confidence reposed in the Company and look forward to their continued support. I also place on record my appreciation of the good work done by all the staff both in the field and in the office.

Note: This does not purport to be the proceedings of the Annual General Meeting of the Company.

STATISTICS

Index Numbers of Wholesale Prices (1981-82 = 100)

	Weight	Latest Week 17-7-93	Over Last Month	Over Last Year	Over March 27, 1993	1992-93	1991-92	1990-91	1989-90
All Commodities	100.0	239.1	0.4	5.5	2.6	9.8	13.7	10.3	7.5
Primary Articles	32.3	239.3	0.9	0.7	3.1	7.3	18.1	13.0	2.2
Food Articles	17.4	276.0	0.5	0.8	2.8	12.3	20.2	11.8	1.2
Non-food Articles	10.1	234.3	2.0	0.5	4.4	-0.6	18.0	17.0	3.6
Fuel, Power, Light and Lubricants	10.7	254.3	-	18.8	3.4	14.1	13.2	12.3	3.6
Manufactured Products	57.0	236.2	0.2	6.0	2.2	10.5	11.3	8.4	11.3

Cost of Living Indices

	Base	Latest Month 1992/93	Over Last Month	Over Last Year	Over March 1993	1992-93	1991-92	1990-91	1989-90
Industrial Workers	1982 = 100	246 ⁵	0.4	5.1	1.2	9.9	13.5	11.2	6.5
Urban Non-Manual Employees	1984-85 = 100	205 ³	-	6.8	6.8	10.4	13.5	11.0	6.9
Agricultural Labourers	July 60 to June 61 = 100	1,039 ⁴	-1.3	0.7	-1.3	12.3	19.3	7.5	3.2

Money and Banking

	Unit	Latest Fortnight 9-7-93	Over Last Month	Over Last Year	Over March 31, 1993	1992-93	1991-92	1990-91	1989-90
Money Supply (M ₁)	Rs crore	3,85,763	6,165 (1.6)	45,283 (13.3)	23,098 (6.4)	46,316 (14.7)	49,560 (18.5)	34,486 (14.9)	37,457 (19.4)
Net Bank Credit to Government Sector	Rs crore	1,96,096	8,463	25,315	20,007	16,274	24,589	23,048	20,676
Bank Credit to Commercial Sector	Rs crore	2,20,285	-1,090	23,046	3,911	24,389	24,173	21,443	23,822
Net Foreign Exch Assets of Banking Sector	Rs crore	27,623	1,039	4,250	1,942	6,155	10,098	1,915	-149
Deposits of Scheduled Commercial Banks	Rs crore	2,78,068	1,738 (0.6)	34,319 (12.3)	10,921 (3.9)	36,389 (15.8)	38,217 (19.7)	25,583 (15.3)	26,809 (19.1)
Advances of Scheduled Commercial Banks	Rs crore	1,55,569	-727 (-0.5)	20,066 (12.9)	4,515 (2.9)	25,462 (20.3)	9,291 (8.0)	14,848 (14.6)	16,734 (19.8)
Foreign Exchange Assets (excluding gold)	Rs crore US \$ mn	22,143 7,065	1,073 455	4,349 158	1,947 598	5,385 746	10,223 3,383	1,383 -1,137	-795 854

Index Numbers of Industrial Production (1980-81 = 100)

	Weight	Latest Month (March 93)	Averages for*	1992-93	1991-92	1991-92	1990-91	1989-90	1988-89	1987-88
General Index	100.0	253.7	215.1	1.3	212.3	-0.2	8.6	8.7	7.3	7.3
Mining and Quarrying	11.5	276.0	223.5	0.6	222.1	0.4	6.3	7.9	3.8	3.8
Manufacturing	77.1	244.5	205.8	0.8	204.2	-1.8	8.6	8.7	7.9	7.9
Electricity	11.4	293.6	269.6	4.9	257.0	8.5	10.8	9.5	7.7	7.7
Basic Industries	39.4	..	..	..	..	3.8	5.4	9.9	5.6	5.6
Capital Goods Industries	16.4	..	..	..	..	17.4	22.4	7.0	15.9	15.9
Intermediate Goods Industries	20.5	..	..	..	..	6.1	4.3	1.5	4.8	4.8
Consumer Goods Industries	23.6	..	..	..	..	10.4	6.3	4.2	6.5	6.5
Durable Goods	2.6	..	..	..	..	14.8	1.7	12.0	7.8	7.8
Non-Durable Goods	21.0	..	..	..	..	9.4	7.5	2.5	6.2	6.2

Foreign Trade

	Unit	Latest Month (May 93)	Cumulative for*	1992-93	1991-92	1992-93	1991-92	1990-91	1989-90	1988-89
Export	Rs crore	5,242	10,832	7,741	53,351 (21.1)	44,042 (35.3)	32,553 (17.6)	27,681 (36.8)	20,232 (29.1)	20,232
Import	Rs crore	5,413	10,853	10,418	62,923 (31.5)	47,851 (10.8)	43,193 (22.0)	35,416 (25.4)	28,235 (26.9)	28,235
Balance of Trade	Rs crore	-171	21	2,677	-9,572	-3,809	-10,640	-7,735	-8,003	-8,003

Employment Exchange Statistics

	Unit	Latest Month (Dec 92)	Cumulative for*	1992	1991	1992	1991	1990	1989	1988
Number of Applicants on Live Register	Thousand	36,759	36,759	36,300	36,759	36,300	34,632	32,776	30,050	30,050
Number of Registrations	Thousand	397	5,302	6,238	5,302	6,238	6,541	6,576	5,963	5,963
Number of Vacancies Notified	Thousand	40	421	460	421	460	490	599	544	544
Number of Placements	Thousand	24	240	254	240	254	266	289	330	330
National Income	Unit	1992-93	1991-92	1990-91	1989-90	1988-89	1987-88	1986-87	1985-86	1985-86
Gross Domestic Product (current prices)	Rs crore	..	..	3,50,899	2,94,765	2,60,03	2,33,799	2,08,533	1,86,723	1,86,723
Gross Domestic Product (1980-81 prices)	Rs crore	2,21,168 (4.2)	2,12,316 (1.2)	1,88,009	1,70,205	1,63,271	1,56,566	1,50,433	1,44,865	1,44,865
Per Capita Income (1980-81 prices)	Rupees	2,222 (2.2)	2,174 (-1.1)	2,069	1,902	1,871	1,844	1,813	1,790	1,790

* Up to the latest month for the current year and for corresponding period last year. . . Not available.

Notes: (1) Superscript numeral denotes month to which figure relates, e.g., superscript¹ indicates that the figure is for January and so on.
(2) Figures in brackets denote percentage variations over the comparable period of the previous year.

A Second Financial Centre for Bombay Where Should It Be?

Shirish B Patel

If we are to avoid needlessly inflicting costs and inefficiencies on financial activity in the city, both immediately and forever into the future, the proposed second Financial Centre for Bombay must be located in south Bombay. But this will require a determined effort from the government and several related actions.

THE 'decision' to locate a major new Financial Centre at Bandra-Kurla has been taken without an assessment of alternative sites, and without considering the impact such a centre at such a location will have on the development of Bombay. In this respect it is no different from most infrastructure investment decisions in the city. They are not 'decisions' in the normal sense of that word: a weighing of pros and cons and an evaluation of alternative courses of action before making a choice. They are more like 'happenings'. You never know what to expect. You never know what is coming next.

These happenings are driven by random forces. If the World Bank suggests an urban project it is willing to finance, this is jumped at as a golden opportunity not to be missed. If an Arab or a Japanese consortium were to express readiness to finance the Worli-Bandra seaface link this would be seized upon with equal alacrity, with not much thought of the long-term consequences, financial or otherwise. Currently, since the Arabs and Japanese are not really forthcoming, anything that the Bombay-based Infrastructure Leasing and Financial Services (ILFS) has expressed willingness to finance is considered acceptable and worth pursuing. In the particular instance of the Financial Centre at Bandra-Kurla the driving force is the ability and energy of one genuinely sincere and dedicated civil servant, the Metropolitan Commissioner. This position makes him the Chief Executive Officer of the Bombay Metropolitan Regional Development Authority (BMRDA) which owns the land at Bandra-Kurla. On the matter of the Financial Centre as well as other issues there is reason to disagree with the BMRDA. This article sets out to explain why.

THE BACKGROUND

Should government as a landowner in the city have attitudes towards the disposal of land that are any different from those of a private developer? There is a good deal of muddled thinking about this. When the Backbay Reclamation plots were disposed of at very low prices to selected parties in a series of private deals with the chief minister, a writ petition (1974-75) resulted in the high court ruling that government could not

behave in the same way as a private property owner. Government was in the nature of a trustee, and the disposal of government property must be, and must be seen to be, conducted in a way that maximised the return to the beneficiaries, who are in this case the citizens of Bombay. So if land is being sold to private developers, it must be by auction, or at the same price as that obtained from a recently held auction, to ensure that the revenue earned is as high as possible.

But maximising the return to the beneficiaries does not mean that all government land should be sold to the highest bidder. For example, suppose it is decided that shifting the textile markets out of south Bombay into Bandra-Kurla is desirable from the point of view of reducing congestion. Then it is surely legitimate to offer the textile markets land in Bandra-Kurla at a concessional price to induce them to move. The larger interest of the beneficiaries is still being served. Quite correctly, this is the view the BMRDA has taken.

More vexed is the question of land prices. It embarrasses the BMRDA that land prices in Bandra-Kurla are reaching such dizzy heights. The inevitable consequence is that housing prices around that area will rise, and housing for middle and lower income groups will no longer be affordable. As the concentration of activity in Bandra-Kurla increases, there will be an outward ripple effect on land prices, and affordable housing for most people will only be found further and further away. The BMRDA does not know quite what to do about this, and is surely relieved to hear an urban economist like Nigel Harris argue that high land prices are desirable: they are an indicator of the city's economic success, of its vibrancy and vigour. The view is that demand, financially expressed, is the best possible indicator of whether what you are doing is right or not. And therefore a strong demand, expressed as high land prices, is the best possible proof that you are running a successful city. On this view, even better than Bandra-Kurla would be to have the Financial Centre on newly reclaimed land at Backbay. Land prices there would be even higher.

Before accepting the view that high land prices is indeed the goal to seek, we need to remind ourselves first of the peculiar geography of Bombay. Most city centres have a hinterland which is 360 degrees all around. In other words, the city centre can be approached by a pattern of roads radiating outwards in all directions. Greater Bombay is different. It is a peninsula, shaped like a 30 degree wedge, with the old city centre at the very tip of the wedge, furthest from anywhere. It is served by two main sets of arterial routes, one running northwards along the Western Railway and Western Express Highway, to Virar and Vasai and beyond; the other running north-eastwards, along the Central Railway and the Eastern Express Highway, to Thane, Dombivli, Kalyan and Karjat. Recently a third arterial link has been consolidated: eastwards, a highway over the Thane Creek links the city to New Bombay (since 1970) and a new railway bridge (1992) now provides an eastwards rail link as well.

Such a narrow approach to the city centre, through the two focal points of Mahim and Sion, means there is no escape from transport congestion. There is also no escape from a more and more linearly stretched development, so that commuting distances are increasingly extended. Land prices grade outwards from the city centre, which is at the extreme tip, to generally affordable levels at distances which are further and further away. Commuting times for new residents who find work in the city centre are more and more absurd.

Thirty years ago it was obvious not only that something should be done to modify the linear development of Bombay, but also that like it or not Bombay would grow eastwards onto the mainland. The new port at Nhava Sheva was likely to far exceed old Bombay's port capacity, industries had already been established in the Thane-Belapur strip across the creek, and the road bridge across Thane Creek was already planned. The land across the creek was practically undeveloped. That it would become an urban settlement was inescapable.

Happily, the state government recognised this. It accepted a proposal to notify the entire area of New Bombay for acquisition. The notion was that all land in New Bombay should be publicly owned. The City and Industrial Development Corporation of Maharashtra (CIDCO, formed in 1970) thus had a free hand to lay out the new city in the manner it thought best. Much more important, though, and central to the concept of New Bombay, was the notion that the new city could be made self-financing. As the new city developed and land prices rose, CIDCO would be the beneficiary of the rise in land values, and would be able to plough back its earnings into providing urban infrastructure, whether it be water supply or sewerage or bus systems or better schools.

Also, because CIDCO was the owner of all the land, it could set aside generous land reservations for hospitals, playgrounds for schools, parks, recreation and other land-hungry amenities. In an already built-up area these are invariably cut back or dropped altogether since acquiring land for such facilities is prohibitively costly. In New Bombay, with all the land publicly owned, the situation could be different.

Notice how CIDCO—an organ of government—as an owner of land is not expected to function with quite the same value system as a private developer. Its purpose is not simply to obtain the highest possible returns from land sales. One of its objectives surely is to create a total urban environment that is attractive and pleasant to live in, where everyone, regardless of income level, is assured of some kind of affordable shelter, where commuting distances and costs are reasonable. At the same time, economic activity, the engine that powers the city, must function efficiently and without unnecessary hindrances or obstructions, with freedom of manoeuvre, freedom to grow or shrink or change direction, and with adequate infrastructural support. In the disposal of public land, therefore, we can postulate four distinct areas of concern:

- (i) the quality of life of urban residents, not forgetting that the bulk of these belong to the middle and low income groups;
- (ii) the efficiency of economic activity;
- (iii) financing the infrastructure; and
- (iv) the long-term consequences of today's decisions.

As in any situation where one has multiple objectives, these may sometimes be in conflict. We are naturally concerned with the overall outcome.

It is against this background that we should consider the BMRDA's scheme to have a major financial centre at Bandra-Kurla. We have only to add one other important piece of information to complete our picture of what the future holds for the Bombay Metropolitan Region. This is that Bombay's second, and eventually more important, airport will be located just across the Dharamtar Creek, at Mandwa-Revas. The reason is that a modern international airport requires two parallel runways located a mile apart. The approach 'funnels' of air space needed for take-off and landing must be unobstructed, both by the natural topography and by built-up construction. The only location in the region where such an airport is possible is Mandwa-Revas.

When the New Bombay project was first proposed it was thought that apart from the benefits deriving from public ownership of all the land in the new urban area, an added opportunity was that of 'restructuring' Bombay. If significant business or government activities could be persuaded to locate in New Bombay rather than near Backbay, then eventually a new commercial complex would develop on the mainland. Much of the burden of growth would take place there

in surroundings where the growth could be happily accommodated. And while no one expected that the old city would actually decline in its activity or concentration, at least it would be relieved of much additional congestion and strain. It was thought that the best way to start off an important new commercial complex would be to have government take the lead, by either shifting some of its important activities there, or by ensuring that its new constructions were located there and not in the old city.

In the event none of this happened. Government interest in New Bombay, after starting it off, has been minimal. In terms of being able to finance its own infrastructure through earnings from land disposal the new city has been a complete success: to the extent that the new railway bridge across Thane Creek, as well as the entire New Bombay railway suburban system including railway stations, track and rolling stock, have been pressed for and two-thirds financed by CIDCO. CIDCO has been more negligent on other fronts, in particular in the matter of water supply to the new city: where it should have taken the lead and organised its own water supply it has sat back and waited for someone else to do it. Similarly in the matter of communications, CIDCO failed to organise fast and reliable transport systems between the old city and the new; and failed also in the early, crucial years, to arrange—paying for them if necessary—excellent telecommunications facilities with the old city. For all these reasons, arising out of the same single cause, government indifference as to how the city should develop, growth in activity in New Bombay has been a small fraction of the growth in activity in the old city.

But the new eastwards railway link is now open. The last few years have seen a phenomenal growth in construction of new housing. And telecommunications have improved dramatically. New Bombay is now poised for a massive spurt in growth. If its planners take care to provide excellent sports facilities, good schools with playgrounds, and encourage restaurants and cultural activities, there is every possibility that New Bombay will attract young companies, in leading edge technologies like software development, for whom the costs of office space and residential accommodation matter, and where the quality of life for its staff is important to the company.

THE ALTERNATIVES

There are two alternatives to locating the new Financial Centre at Bandra-Kurla: to have it in New Bombay, or to have it in south Bombay. As we will see later, the sensible place to have it is south Bombay. But this will require a determined effort from government, and several related actions. The merit of Bandra-Kurla is that it needs no effort. Inertia will carry it forward.

When new commercial floor space is built, whether it be for offices or industry or even godowns, the implication is that there

will be workers using that floor space. For offices it might be one worker for every 60 sq ft (the London norm is about 125 sq ft per worker; our offices are more crowded). For industries the area per worker is usually much more, depending on the nature of the industry, for godowns still more.

In all these cases the workers attracted to the newly constructed area may be considered 'primary' producers of goods or services. They require restaurants, shops, paanwalas and these in turn require workers. Most workers have families, who in turn require the services of schools, laundries and more shops, whose employees also have families. D T Lakdawala estimated in the middle 1950s that each additional 'primary' job brought about a population addition of 13.5 to the city.

If new workers are located in Bandra-Kurla the resulting population addition will almost certainly be somewhere along the Western Railway. Adding something as prestigious as a new Financial Centre, which pushes up land prices, will force most of these to live further and further away. Commuting times will be even longer than they already are, and the over-crowding in trains, which is already at impossible levels, will get worse. The quality of life in Bombay, already pretty low, can be expected to deteriorate further.

Investment lures investment. In particular, infrastructure investment attracts development activity, which in turn requires still more infrastructure and so on in a continuing spiral. A Financial Centre at Bandra-Kurla will add a high volume of 'primary' commercial floor space at that location. Following closely on the heels of this will be new residential floor space at proximate locations. Both will in time generate a demand for new highways to south Bombay to satisfy the car commuter and business traffic between the two centres. These new highways, built on reclaimed land off the Western shore, will offer newly reclaimed areas commanding high prices for high-income residential development along the western edge of Bombay. Only the middle and lower-income, train-travelling bulk of Bombay's residents will be much worse off, either living in illegal 'jhopdies' nearby or commuting impossible distances.

Segregation by income levels in Bombay will be more acute than it is today. It will be prestigious to live on the western shore, or as close to it as possible. Land prices will be sharply graded, declining as one moves eastwards.

Consider one alternative. Imagine (and admittedly in today's context this requires a leap of the imagination) that we have a state government with vision and some real concern for Bombay's citizens. It might then say that as many of the new job opportunities as possible should be centred in New Bombay, where good social and physical infrastructure is easiest to provide. As much of Bombay's new floor space as pos-

sible would be located there. The land at Bandra-Kurla, instead of being exploited for its money potential, might be used for schools with playgrounds, recreation and other facilities calculated to improve the quality of life of those living in the old city.

We already have the Financial District of Bombay located in the Fort area. The Reserve Bank is there, so are the headquarters of many other banks, LIC, UTI, IDBI, ICICI and all the major lending institutions, and the Bombay Stock Exchange. Is it really possible to have a meaningful, second, Financial Centre located an hour away? Are we not needlessly inflicting costs and inefficiencies on financial activity in the city, both immediately and forever into the future? Should not all financial activity be focused on one centre, which, given that it is already so heavily concentrated in south Bombay, cannot be anywhere else?

But there is no vacant land in south Bombay to add the floor space we need to expand our financial services, or to locate the new National Stock Exchange. If we were to reclaim more land at Backbay we would only be adding further to the already awful congestion on our commuter systems.

Let us try another leap of the imagination. Imagine that the Mantralaya were to shift, lock, stock and barrel to New Bombay. So also the Legislative Assembly. Each MLA might then have a bungalow in New Bombay instead of a room in a hostel. Our senior civil servants would live in houses with gardens, like their New Delhi colleagues, rather than stuffy little flats. The floor space vacated by government would be happily snapped up by the financial institutions, at prices handsome enough to construct all its new accommodation, properly house all its employees in much improved surroundings and still have plenty left over.

The floor of the assembly might become the trading floor of the National Stock Exchange.

Amusing, irreverent and implausible as all this may seem, the serious point is that there are many activities located in south Bombay which have, today, no real reason to be there. There are innumerable government agencies and offices in south Bombay which could just as effectively function from New Bombay. Changing the user in south Bombay from government clerk to banking clerk adds no burden to existing systems. It is the new construction that produces new pressures, and these would be placed on the mainland where they can be more simply and cheaply dealt with.

In any other country with a free market in land the process of evolution of a single financial district within a city would happen of its own accord, without government intervention. Activities which generated lower earnings per square foot of floor area would move elsewhere, selling out to finance houses willing to pay for space at their preferred location. In Bombay the Rent Act means that all rented properties

are effectively out of the market. The black money transactions needed for a tenancy to change hands mean that properties do occasionally change occupants, but such changes are few, and available only to smugglers, developers, or others with cash in their cupboards.

No financial institution can acquire rented premises on this basis. So if today's government is serious about setting up a major new Financial Centre which is to be at the hub of India's international economic operations, there is no escape from positive intervention.

Offering land at Bandra-Kurla is too pathetic. The imperative is to make premises available in south Bombay. There are several ways in which this could be done. One would be to identify government offices that could be shifted elsewhere and sell the space to the incoming institutions. Another would be to accelerate the shifting of the textile markets (space for them is under construction at Bandra-Kurla) and reconstruct the vacated space to suit the new users. Best of all would be to recognise the reality of tenancy transactions. Without overturning the politically sensitive Rent Act, one could permit tenancies to be officially sold, with payment by cheque, and the amount distributed, as the cash is now, with one-third for the landlord and two-thirds for the tenant. If only that were done, market forces thereafter, with no further intervention, would ensure physical relocations aligned with the most efficient functioning of business activities.

PAYING FOR INFRASTRUCTURE

The BMRDA was set up in 1975. It was recognised that in Bombay and the surrounding region there was a profusion of independently functioning agencies, each doing its own thing, without regard for how this might affect someone else. Trivial examples included for instance the Bombay Municipal Corporation (BMC) resurfacing a road only to have it dug up again within a few weeks by Bombay Telephones. More serious were urban investment decisions. Agencies responsible for water supply, sewerage, telephones, transport, New Bombay, Thane and the other neighbouring Municipal Councils were each finding their own funds and setting up their own projects, with little co-ordination and certainly no attempt to determine priorities for funding between projects belonging to different agencies. The purpose of setting up the BMRDA was to have a single agency that could take an overall view of the development of the region around and including Bombay. It would co-ordinate the work of all the other urban agencies, each otherwise pursuing its own singular interests. Ideally, the BMRDA might be able to determine priorities between urban projects, and help channel funds in preferred directions. It would have some sort of vision of how the city should develop, what sort of a city this should be, and would work towards realis-

ing that vision.

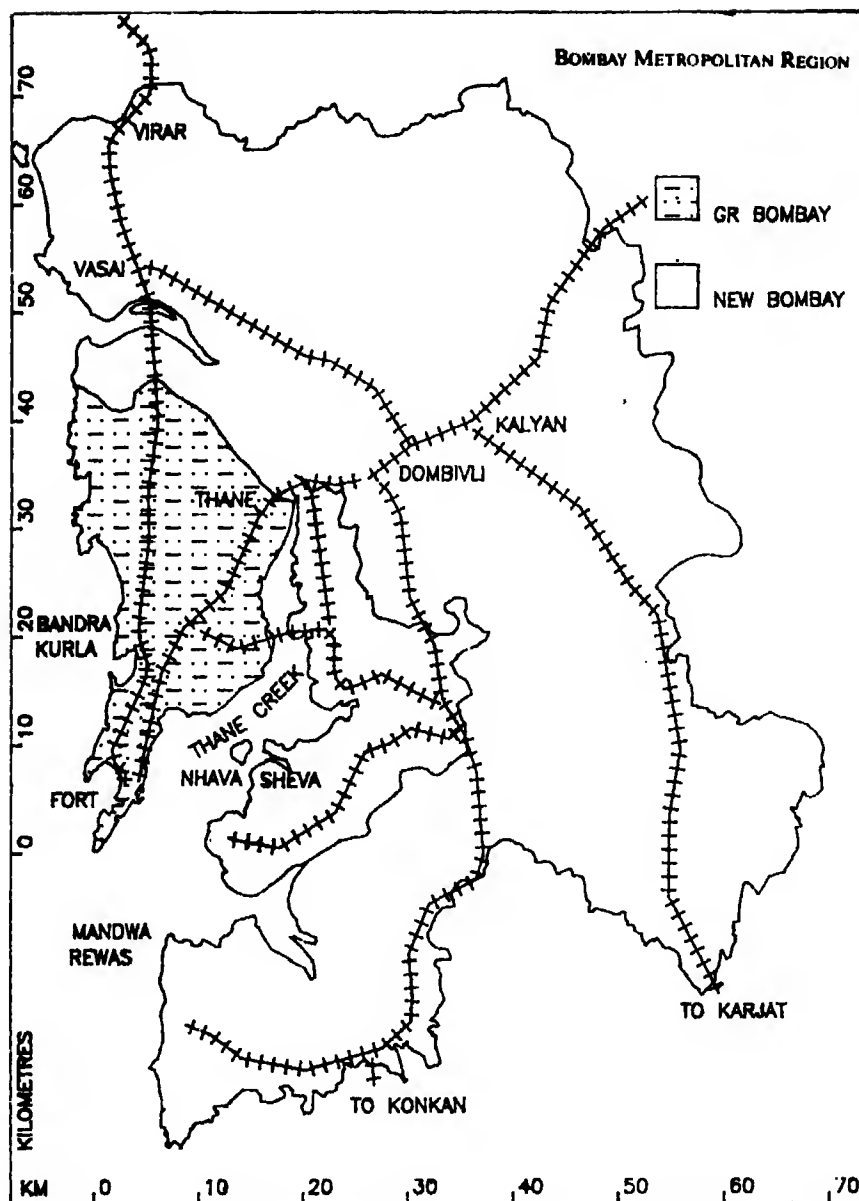
Nothing of the sort has happened. The BMRDA does not have, in its collective mind's eye, a clear view of what this city should become, or indeed, any kind of view at all, clear or otherwise. If it does, it has not been made public knowledge. A great deal of basic information has been gathered and put together, but no image formulated of where we want to go from here, so there is no purposeful framework for policy decisions. A sentence in one of the BMRDA's own reports, 'Shelter Needs and Strategies for BMR' (1992) eloquently expresses the approach: 'The above policy is formulated with the basic assumption that historical trend of growth will continue. It does not examine the desirability of such growth or the ability to provide for the infrastructure demands of such growth.'

There is also no list of development projects in the region, with a statement of costs and benefits, and so no attempt at assigning priorities. The work of co-ordinating what different agencies are doing is not even attempted. Much of what the BMRDA is pursuing really actively arises out of its ownership of the land at Bandra-Kurla. This is to be commercially exploited to the hilt. The impact of this development on the region has not been even looked at. How it could be used to improve the quality of life for Bombay's residents is no part of its objectives.

The BMRDA's lack of foresight is apparent in other ways as well. It should have been fairly obvious, years ago, that Bombay would grow northwards into the undeveloped areas of Vasai and Virar. All that land could have been notified for acquisition, as New Bombay was. It would have made the urban development of that area similarly self-financing. Instead, Bhai Thakur and other developers were allowed to buy up most of that land, the BMRDA remaining carefully aloof. The state government was then persuaded to designate 8,500 hectares of that land as 'urbanisable', which implies permission to build on that land at an FSI of 1. BMRDA was nominated the Planning Authority for the area. This means that the BMRDA controls all building permissions. It also means that BMRDA must provide the urban infrastructure at, naturally, government expense. Any profits it might make from sales of land at Bandra-Kurla will go into water supply, sewerage or roads in Vasai-Virar, and still there will be a shortage of funds for that infrastructure. Those who stand to benefit most are the developers who have cheaply bought up that land. The ones to suffer are Bombay's residents, paying through the nose for residential accommodation without proper water supply or sanitation or other amenities, and packed into the already overcrowded Western corridor.

A PROPOSAL

Now that it is too late to acquire the land in Vasai-Virar, and too late to think of



financing the urban infrastructure there through sales of publicly-owned land, is there any other mechanism that could be used to achieve the same end? We want part of the money that incoming residents pay for their flats to go into financing good urban infrastructure, not only water supply, drainage, sewerage, roads, street-lighting and so on, but also parks, schools, hospitals and similar amenities. One suggestion that has emerged deserves a closer look.

The proposal hinges around the fact that ownership of urban land is distinct from the right to build on it. Land may be owned by anyone. But how much floor space can be built on it, the rules of setback lines and height control, and the uses to which the construction may be subsequently put are all matters under the purview of the public

authority. This makes sense. Unbridled construction would soon result in chaos. For the common good, streets of adequate width must be laid out, underground services provided, and the overall volume of construction regulated. We may argue about how much this volume should be. But that there is a need for overall regulation is not disputed.

The proposal emerged during the detailed planning of the Vasai-Virar area. Given an urbanisable area of 8,500 hectares, if everyone were allowed to exploit their FSI of 1.0 the total built-up floor space in Vasai-Virar would be 85 million sq metres. No precise figures are available, but a reasonable guess is that in Bombay we have an average of no more than 12 sq metres of built-up space per person, adding

together all possible uses, residential, offices, shops, hotels, industries. Assuming the same norm for Vasai-Virar, that area would then be capable of supporting a population of 7 million! This was absurd, and obviously not likely to happen in practice. More realistic would be to expect a settlement in that area of a population about a fifth or a quarter of the area's maximum potential. But with everyone free to build this would be spread out and scattered all over Vasai-Virar. Providing infrastructure everywhere would be expensive and difficult. Much better would be a scheme that concentrated the expected population in designated areas where an adequate level of services could be provided.

Detailed planning also revealed that roughly half the total area would go under public use of one sort or another: roads, drainage canals, storm water storage ponds, parks, playgrounds, and reservations for other public amenities. Where would the funds to acquire such large areas come from? And how would the cost of laying the roads, water supply and other services be met?

The proposal is that the 'right to build' that goes with ownership of land should be fixed not at 1.0 but at 0.2 times the plot area. Distinct from this should be a 'limit of building construction' which varies across the urbanisable area, from a high of 1.5 times the plot area near the railway stations to 0.2 near the boundary where the adjoining Green Zone offers a limit of building construction of only 0.1. The 'right to build' is made transferable within the Vasai-Virar area. Anyone can construct on his plot up to the limit of building construction (LBC) for his plot, but if his right to build (RTB) falls short of this limit he must purchase the deficient RTBs from the open market. Because the RTB is only 0.2, whereas the LBC ranges upwards to 1.5, we immediately have a demand for RTBs.

Next, because we need to acquire so much land for public use, but have not the wherewithal to do it, we say that anyone who surrenders his land to the planning authority without encumbrance will be entitled not only to his original RTB of 0.2, but will be given a bonus RTB of a further 0.2. Thus he has a choice: he can develop his plot, starting with an RTB of 0.2, or he can surrender the plot to the planning authority and sell RTBs of 0.4 times his plot area.

We thus have a supply of RTBs. All those land-owners whose lands happen to fall under a public reservation, and who therefore cannot put their land to any other use, should be happy to surrender it for RTBs, which in effect are cash on the nail since there are ready purchasers for RTBs. The problem of finding funds for land acquisition for public use is thus solved.

With demand and supply both established, we only have to ensure that demand will outstrip supply. By careful planning, and

the proper sizing of zones with various limits of building construction, an exercise that has been presented in some detail for Vasai-Virar, it is possible to ensure that demand will indeed exceed supply: we can expect a vigorous market in RTBs.

This still leaves unanswered the question of financing of the urban infrastructure. Partly this can be met by imposing a Development Charge on plots where construction is permitted, but only partly. For the balance, there are two suggestions. One is that the gap between demand and supply be filled by the sale of additional RTBs by the planning authority. The other is that whenever construction is turned over to commercial or industrial use, the user be expected to surrender to the planning authority RTBs of an amount equal to the floor space occupied. In other words, if the limit of building construction on a plot is 1.0, the owner will be expected to show RTBs of 1.0 times his plot area. But if he wants to put the area to commercial use, he must additionally surrender to the planning authority a further quantum of RTBs of 1.0 times his plot area. The RTBs so surrendered must be purchased from the open market, where the planning authority is also a player, selling RTBs to finance infrastructure.

The scheme is viable only because the Vasai-Virar region is large enough and homogeneous enough for the movement of RTBs from one part of the area to another to be acceptable. That such a scheme of transferable RTBs is open to misuse and frauds is a valid objection: the only solution is transparency. From the outset, plot by plot we need a published statement of RTBs and LBCs. Then, as people surrender land and claim RTBs, or submit RTBs against building permissions, or surrender RTBs against commercial use, all details must be published. If everything is independently verifiable, a vigilant public can be expected to minimise the chances of fraud.

Apart from solving the problem of financing land acquisition and financing infrastructure, the scheme has two additional important benefits. First, it is more equitable than the present system of physical planning, where one person finds his plot coloured yellow (residential), his neighbour gets a windfall because his is coloured blue (commercial) and the next man is thoroughly upset because his is coloured green (park). With the new scheme the man whose plot is to be a park earns a bonus RTB which he can market; the man whose plot is commercial must buy additional RTBs to get the full benefits of his construction. Everyone is more equitably dealt with. There are no bonanzas and no injuries.

Second, we have suffered for too long in our cities from a set of building regulations that imposes a uniform FSI over vast areas. This has brought about the kind of mind-numbing cityscape we see all around us. By having a graded and varying limit of building construction from one part of the city to

another we have the opportunity to build to different intensities, without hurting one person's interests over another's. We can look forward to a much richer vocabulary of urban design.

Applying the concepts that have been worked out for Vasai-Virar to already built-up areas, for example south Bombay, is not so easy. In such areas we have the additional problem of 'heritage buildings', structures of historic value which need to be preserved. The owners cannot afford the costs of preservation, and in any case think it unfair that they should be prevented from demolishing and reconstructing on their properties as their neighbours are free to do. The first step of course would be to reduce the 'right to build' that goes with ownership of land to, say, 0.1 of the plot area. Anyone with a vacant plot and a limit of building construction of say 1.33 would then need to purchase the balance 1.23 from the open market. Heritage buildings, at the time they are so designated, might be given a bonus of another 0.1 on their plot areas, and permitted to sell their total of 0.2 RTB on condition that the amount so realised is actually spent in maintaining and preserving their properties. For such schemes to work, the zones within which transfers of RTBs apply

must be carefully designated. Studies also need to be made to ensure in each zone that the demand will exceed the supply. It will not do for instance to have a zone where there are lots of heritage buildings but no vacant lands for new construction. In such cases it might be necessary to require RTBs for demolition of a building and its reconstruction to its existing volume.

The central feature of this proposal, and its variants, is that ownership of land be separated from ownership of the right to build. The latter can be distributed more equitably, to compensate those who are disadvantaged by being forced not to build—because their land is a park or their construction a heritage building. In the process we also have a means of financing infrastructure and land acquisition for public use. The windfall earnings that would otherwise go into developers' or land-owners' pockets are spent instead on public services.

The BMRDA might serve this city better if it were to address these and similar issues, rather than promoting financial centres at unviable locations, lazily raking in money from high land prices, and having us believe that the consequent impressive 'bottom line' is a sign of high success.

ASSAM

No Tears for the Liberators

Udayon Misra

Many factors have contributed to the alienation of the Ulfa from the masses and today, even as its activists are being gunned down by the security forces with the help of surrendered Ulfa cadres, there are few tears from the people for their 'liberators'

RECENTLY, six Ulfa activists were killed by the security forces in Parulguri village in Netaipukhuri, some 15 kilometres from Sibsagar. Those killed included Pradip Mohan, a front-ranking Ulfa leader and a close confidant of Ulfa commander-in-chief Paresh Baruah. In what was easily one of the more serious encounters involving the ultras and the security forces, two school-boys also lost their lives in the crossfire which took place in the afternoon of June 2. Just a few months ago, the killing of so many Ulfa hardcores would have led to a wave of protests in the state, compelling the administration to come out with an explanation, however tenuous. But this incident, apart from being yet another 'success' of the security forces in fighting Ulfa terrorism in the state, brought to light the growing internecine feud between those Ulfa cadres

who have surrendered and those who have refused to give up arms. The popular reaction to the killings also seems to have brought to focus the diminishing appeal and the rather shrinking mass base of the United Liberation Front of Assam.

It is significant that the killing of as many as six front-ranking Ulfa cadres did not evoke any major protest in the state. The widely circulated Assamese weekly, *Boodhbar*, known for its open espousal of the Ulfa cause, lamented that no political party or organisation of the state has come forward to protest the killing. Whereas in the case of earlier such encounter deaths, the All-Assam Students' Union invariably registered its protest, this time the Sibsagar unit of the AASU maintained an eerie silence over the matter. It was left to the local student and youth organisations of

Netaipukhuri to observe a muted six-hour bandh, and that too as a mark of protest against the death of the two innocent school-boys. Neither in the Assam Agricultural University nor the Dibrugarh University, both situated within a 50 kilometre radius of the place of the occurrence, were any protest meetings held. Academic life in the region went on undisturbed and even militant organisations like the Asom Jatiyatabadi Yuva Chatra Parishad kept a low profile. The bodies of those killed were cremated by the security forces and there were no public offerings of tribute to the dead. This would just not have been possible a few months back. Deaths of Ulfa cadres either in police custody or in encounters have always evoked protest in some measure by the people as well as by organisations known to be sympathetic to the Ulfa cause. There have been innumerable instances of rural women surrounding army camps and police outposts to demand the release of arrested Ulfa cadres. 'Shraddha' ceremonies of dead Ulfa activists have been participated in by thousands of villagers, defying prohibitory orders in many cases. Some time back, when an Ulfa activist was gunned down in the oil town of Dulaijan, the AASU unit there called for a hartal, while just a few months ago more than 50 persons were held under the TADA while on their way to a shraddha ceremony of two Ulfa leaders who had been killed by the police in Sonitpur district. By contrast, this time there seemed to have been no attempt to mobilise public opinion against the killing and outrage, as expressed in sections of the local press, has been focused mainly on the death of the two schoolboys.

Keeping in view the fact that the Netaipukhuri incident did not send any shock-waves in the state and life even in nearby areas continued normally, one is bound to conclude that the process of isolation of the Ulfa from the common masses seems to have reached a point of no return. Yet, barely three years back, the Ulfa enjoyed a wide support base throughout the state encompassing the major ethnic groups of the Brahmaputra valley. Thousands had silently but determinedly rallied to the cause highlighted by the Ulfa and had sheltered and fed the young militants who were flesh of their flesh and blood of their blood. Born out of the deep sense of disillusionment with the six-year old anti-foreigner movement led by the All-Assam Students' Union, the Ulfa had succeeded in highlighting some of the deep-seated grievances of the Assamese people and had won for itself a support base even among sections of the plains tribals and the tea garden community. Its call to liberate Assam from the 'colonial' yoke of the centre found ready sympathisers among a people long exposed both to the fury of nature in the form of devastating annual floods and an insensitive and exploitative central government which was content to leave this rich state in a condition of primeval backwardness. Thus,

it was inevitable that the Ulfa, even without a coherent ideology to keep the gun in control, would gain swift ground. Initially, even the excesses committed by the organisation were attempted to be written off not only by the common people but also by a large section of the Assamese intelligentsia as a necessary evil for the cause of the revolution. So, when a Gritchenko or a Raju was killed by the Ulfa after being abducted, most of the regional Press, instead of being outraged, spoke in apologetic terms, half-justifying the killings. But it did not take too long for this support base to be eroded. Not only did the Ulfa come into conflict with organisations like the United Reservation Council of Assam (URMCA) over its policy of 'de-nationalisation' which was viewed by the latter as a move to do away with ethnic rights, but even among the indigenous Assamese-speaking people severe doubts began to surface about the Ulfa's real motives and its manner of functioning. Unlike several other secessionist outfits of the north-east, the Ulfa did not try to evolve any mechanism to try to test the will of the people and came to take the latter's support for granted. Over-emphasis on the power of the gun, lack of a binding ideology and the overriding influence of money—all contributed towards the growing divide between the Ulfa and the masses whom it pledged to liberate. During the early stages of the Naga and the Mizo insurrections, for example, both the Naga National Council and the Mizo National Front had tried to gauge the people's will through moves like election boycotts, referendums and famine relief work. But Ulfa, right from the beginning, adopted an isolationist approach.

What should be even more disturbing for the Ulfa at this juncture is the fact that in the recent encounter at Netaipukhuri, the security forces were actively aided in their operation by former Ulfa cadres who have surrendered. These 'doves' (commonly referred to as 'Sulfa' for surrendered Ulfa activists) have been working in close liaison with the security forces and the police in ferreting out their erstwhile comrades who have refused to surrender. The chief minister has on several occasions publicly lauded the support and active co-operation he has been getting from the former Ulfa activists and, in lieu of that, the Hiteswar Saikia government has extended full patronage to these elements, including giving them security cover. This has given the 'doves' a privileged position in society—a position which they have been putting to the maximum misuse. Over the past few months there have been continuous reports of terror, extortions and assaults being indulged in by the surrendered Ulfa cadres. The Saikia government has been so enamoured by the support it has received from the former Ulfa activists that in some districts the latter have also been appointed as police officers. It was some of these surrendered Ulfa activists who led the way to the Ulfa

hideout at Netaipukhuri where the six ultras were gunned down. In a letter published in the weekly, *Boothbar*, the general secretary of the Ulfa, Anup Chetis, has blamed the deserters for their collaborationist role and warned them to avoid such 'fratricidal' clashes in the future. The tone of the Ulfa leader's letter was one of sadness rather than of anger and retribution. From this it appears that the inner contradictions of the organisation are reaching a saturation point and it is fast losing its earlier cohesiveness and its power to strike. Those who have refused to surrender and are controlling the organisation today, seem to have lost all influence, not to speak of any control, over their comrades who have surrendered. At the same time, the different district units also seem to be drifting apart, with each unit charting its own line of action. No other insurgent outfit in the north-east appears to be plagued by as much dissension and fratricidal conflict as the Ulfa today.

The Ulfa's policy of abductions, extortions and killings have finally driven the organisation to its nemesis. Its earlier efforts to win over the masses, to correct its mistakes through self-criticism and to chart out a broad, though vague and nebulous, leftist line of struggle have all been submerged today by money-power, opportunism and intrigue. The Jatiyo Unnayan Parishad, which the Ulfa had floated with the purpose of building up a mass-based organisation through concerted social action, had made a promising start but eventually could not take off. Even as lumpen elements took over the leadership of the Ulfa at different levels, the increasing reliance on terror-tactics broadened the divide between the organisation and the masses. For example, on Republic Day this year, Ulfa killed three village youth in the Nowgong district and strung their bodies from lamp posts, with a note saying that it was the organisation's Republic Day gift to the nation. These youths, among whom was a tribal leader belonging to the Tiwa community, were accused by the Ulfa of acting as informers. The killings evoked wide scale condemnation throughout the state and further widened the gulf of suspicion and distrust between the Ulfa and the different tribal organisations of the region. On several earlier occasions too, the Ulfa has been known to display a gruesome degree of insensitivity while dealing with people whom it considers to be its opponents. In August last year, Ulfa cadres in Mongoldoi in lower Assam killed three villagers suspected of being informers, by chopping off their arms and tongues and leaving them to bleed to death by the roadside. The Darrang district unit of the Ulfa claimed responsibility for these macabre killings. Such killings have accelerated the process of alienation of the Ulfa from the masses and today, when its activists are being gunned down by the security forces with the active help of surrendered Ulfa cadres, there seems to be few tears among the people for their 'liberators'.

Shedding Illusions about Indo-US Defence Co-operation

Rita Manchanda

The framework of the much-touted Indo-US defence co-operation seems to be coming apart. And even the small pickings that are left will come with hefty political price-tags for this country.

THE army brass had openly rejoiced. The era of co-operation with the world's defence technology leader, the US, had finally dawned. Without a trace of misgivings, the then army chief, general S F Rodrigues, enthusiastically announced in December 1991 that based on a "shared strategic perception", Indo-US ties would evolve into "a mutual arrangement that benefits both equally. His eyes were set on the ambitious Kickleighter proposals which held out the promise of "enhanced levels of service-to-service contacts and exchanges".

The high profile visits of the US army chief, Pacific Command, Lt general Johnny Corns and admiral Frank Kelso II in January 1992 silenced the few sceptics. There was much talk of possible sales of early warning systems, the 155 mm self-propelled gun and the F-5 E aircraft. And even in the area of transfer of sophisticated technology, long denied to an India which was suspected of being a Soviet ally, co-operation on the indigenous light combat aircraft (LCA) project was held up as the shape of things to come. The intellectual underpinning of the relationship was provided by the report of the Carnegie Endowment which urged a higher priority for India in US foreign policy.

But in recent months the much-touted framework of Indo-US defence ties seems to be coming apart. US arm-twisting of Russia to renege on the contract to supply cryogenic engines and technology to India is but the latest in a series of rude jolts which have shaken up the complacency marking Indo-US ties. Sanctions are to continue on the Indian Space Research Organisation (ISRO) despite the cancellation of the deal with Russia.

There have been reports also of a threat of sanctions against India's Defence Research and Development Organisation (DRDO) in the wake of disclosures that two American companies had illegally exported to its laboratory (DRDL) equipment which can be used to construct missile nosetips or rocket nozzles.

The warning is clear. No quarter is to be given to nuclear-threshold countries like India. The lesson of Iraq, that is, 'management by intervention' or threat of such

action as in the case of North Korea has not been lost here. Incrementally, India is to be pressured into adhering to the US-sponsored network of export control regimes, including the NPT and the Missile Technology Control Regime (MTCR). It is not incidental that the sanctions continue on ISRO despite the cancellation of the rocket deal.

No doubt, given a lead time of five years Indian scientists will be able to indignously develop the cryogenic technology for the rocket launch programme. The cutting edge is the burden of sanctions on India's advanced satellite building programme and the effect of the denial of the few but vital imported components. It is that which is worrying the ISRO chairman, U Rao.

So much for the illusion nurtured by the Carnegie Endowment study that for a nuclear and missile capable India, the US policy option should be 'management through participation'. When it comes to India's nuclear weapons potential, including the development of missiles capable of delivering nuclear weapons, the US policy remains 'management through denial'.

Doomed is the fond hope of Indian strategic analysts that in view of India's advanced Prithvi and Agni missile programme, which Washington acknowledges has been indigenously developed, the US will accommodate India as a quasi-participant in this exclusive caucus of seven. The bottom line being a shared concern not to transfer technology to others.

But it is not only the Clinton administration's concern for non-proliferation which threatens to upset the applecart of the Indo-US steering committees of the army and the navy. The other irritant is human rights. The axe could fall on International Military Training and Educational (IMET) funds for India. On June 16, the US House of Representatives passed the Fazio amendment making the \$ 3,45,000 allocated for India conditional on a presidential certification that the government of India is taking steps to address the human rights problem in India.

The irony is that the Congress presumes that by targeting India's slim pickings under the IMET programme it can prise open a

reluctant India to give access to international human rights organisations. And Democrat Congressman Vic Fazio's amendment demands that India's military personnel be held accountable for violations of human rights.

Of course, with only \$ 3,45,000 at stake, not much is likely to be sacrificed. A few junkets for about nine or so officers at Staff Training Colleges in the US? Moreover, the IMET programme has traditionally been underutilised. Over the last 45 years up to 1990-91 only about 807 military and defence related officials went for the training. But these were often officials who later made it straight to the top. As an aggrieved naval officer in his brief before the Indian Courts charged a few years ago, of the 16 naval officers who went for training courses to the US, all 16 became flag officers, that is rear admiral and above.

Would the Pentagon want to lose this discreet avenue of influence? Apparently not, for assurances have been given to the Indian ambassador to the US, Siddhartha Shankar Ray, that the executive will oppose Congressional efforts to make the amendment law. Enhanced levels of service-to-service contact were to have been the backbone of the promised Indo-US defence ties but as the IMET irritant has brought home, in the basket of competing policy objectives, the commitment to open up to each other the activities of their respective forces is likely to lose out. For, as John Malott, Clinton's visiting envoy, stressed in Delhi, "we are not seeking a strategic relationship with India".

But before we write the epitaph on Indo-US defence co-operation, there is need to look behind the hype. The watershed was the 1986 Indo-US MOU governing technology transfer. For the first time the US indicated its willingness to transfer sophisticated military technology and co-produce weapons systems in India. Even before the visit of the US defence secretary, Caspar Weinberger, to India—the first ever such visit—US Congress had approved the sale of GE F-404 engines to power the LCA prototype.

But as Brahma Chellaney in *Nuclear Proliferation: The US-India Conflict* showed, technology transfers were used by the US to gain control. The Tarapur story is a study in the exercise of US leverage through its control of fuel supply for the power plant. In the case of the LCA, the scaling down of the initial profile of the proposed frontline fighter was likely to have been influenced by the American technology experts. Moreover, while there has been a surge of technology licences to Indian companies, the items have disappointingly turned out to be much below state-of-

the-art technology as in the case of the Super Cray computer.

As for the arms shopping list, Malott has served notice that defence co-operation is not to be centred on arms sales. Besides, where is the money? But even in the scaled down list, the Pentagon has not been forthcoming. Since 1989, India has been asking for tube-fired missiles like the harpoon and an EW system.

What is left? "Ship visits, joint training exercises, professional military exchanges..." as Malott put it in Delhi. And it

does not come cheap. "It means co-operating in international peace-keeping operations." So Indian troops are to join the multinational peace enforcing force in Somalia, despite the misgivings of the Indian ministry of external affairs and the navy and air chiefs. Apparently, general Rodrigues, who retired as army chief at the end of June, pushed through the decision to please the Americans who had made it clear they wanted India in. He clearly did not want to add on to the lengthening list of irritants between India and the US.

There is utter lack of awareness especially among rural masses and even the enlightened urbanites are indifferent to any organised consumerism, and (3) Ineffective and poor infrastructural facilities and lack of an honest and dedicated band of officials retard the satisfactory implementation of the act. It is a fact that since the enactment of the Consumer Protection Act, 1986 consumer awareness has increased rapidly and the District Redressal Forums and State Commission have succeeded in redressing consumer complaints to some extent. But statistics show a different picture of the effectiveness of redressal machinery in our country.

Consumer Redressal Agencies: How Effective?

Kerala Experience

Lizzy E A

Several agencies have been created under the Consumer Protection Act, 1986. However, if the Kerala experience is anything to go by, the functioning of these agencies is constrained by a variety of factors.

THE Consumer Protection Act, 1986 was hailed as a milestone in the history of socio-economic legislation in our country. Under this act any buyer or consumer of goods or services is entitled to seek remedy against the seller for defective goods or services or deficient quality of goods or services supplied. To receive consumer complaints and dispose of them in the manner laid down under the act District Redressal Forums and State Commissions were set up in each state and union territory. The apex authority for consumer protection, viz, National Consumer Dispute Redressal Commission (National Commission) was also set up with appellate jurisdiction. These redressal agencies have powers to promote and protect consumer interests and rights. Consumers deprived of their basic rights may invoke this act to provide quick and cheap legal remedy for the purpose of asserting their rights. This legal remedy is also free from court fees and avoids prolonged litigation. Since every individual is a consumer of one or other type of goods or services, the term consumer can be virtually equated with the term 'citizen'. It is said that the consumer interest is involved when citizens enter exchange relationships with institutions like hospitals, libraries, police forces, government agencies as well as business.

Until the advent of independence there were hardly any laws in India which were devoted to the protection of consumer interests. Enlightened representatives of people felt the need for consumer protection and took the initiative for the enactment of

consumer laws whereas in the west the enactment of legislations were at the behest of organised consumer movement and consumer groups. The very first Consumer Protection Council of our country was founded by C Rajagopalachari in Madras around 1950. A few years later, in 1966, the Consumer Guidance Society of India was formed in Bombay. It was in 1966 that consumer protection grew into a movement as per the records of the International Organisation of Consumer Unions (IOCU). In the 70s more Consumer Unions were formed in Delhi, Calcutta and Ahmedabad. There are more than 30 legislations in India to protect consumer interests of which the latest is the Consumer Protection Act, 1986.

The Consumer Protection Act, 1986 empowers an aggrieved person or a recognised consumer association to approach the prescribed authorities under the respective legislation for relief. But the act by itself may not bring the desired social changes because of the following important reasons: (1) There is no separate ministry or department of the government of India which can exclusively deal with consumer affairs. We have a number of ministries for giving justice to consumers in case of violation of consumer rights. They have to go to the food and civil supplies ministry for redressal under Consumer Protection Act, to the health ministry for the prevention of food adulteration, to the industries ministry for the control of unfair and monopolistic trade practices, etc. Consumers have to run after various ministries for getting redressed, (2)

CONSUMER PROTECTION MOVEMENT IN KERALA

The Consumer Protection Act, 1986 came into force with effect from April 15, 1987. Immediately after that the central government urged the states and union territories to set up Consumer Protection Councils independently. Obliging this requirement some of the states and union territories set up independent State Consumer Protection Councils—with the minister for civil supplies as president and several official and non-official members. The Consumer Protection Council of Kerala consisting of 45 members was constituted as per GO(P) 21/88/F and CS dated September 20, 1988. The State Council's powers were mostly in policy-making for promoting and protecting consumer interests and setting-up of District Redressal Forums and a State Commission to receive consumer complaints and dispose them in the manner laid down under the act. Later, the State Commission

TABLE 1: DETAILS OF CASES RECEIVED BY THE DISTRICT FORUMS BETWEEN NOVEMBER 1, 1991 AND OCTOBER 31, 1992

District Forums	Total Cases Received	Literacy Rate (Per Cent)
Ernakulam	4071	92.35*
Kozhikode	3906	91.10*
Kottayam	2077	95.72*
Thiruvananthapuram	1893	89.22*
Thrissur	1876	90.18*
Kollam	1762	90.47*
Alapuzha	1405	93.87*
Kannur	1385	91.48*
Palakkad	1057	81.27
Malappuram	857	87.94
Idukki	769	86.94
Pathanamthitta	695	94.86
Kasaragod	396	82.51
Wynad	361	82.73
Total for Kerala	22510	

* Literacy rate is greater than or almost equal to state average.

at Thiruvananthapuram and three district forums which were actually regional forums were established for the southern, central and northern regions. These forums were: Kollam District Forum for Thiruvananthapuram, Kollam, Alleppey, Pathanamthitta and Kottayam districts, the Ernakulam District Forum for Thrissur, Palakkad, Idukki and Ernakulam districts and the Kozhikode District Forum for Kozhikode, Wynad, Kannur, Malappuram and Kasargode districts. These three regional redressal forums continued to function till the Supreme Court order in August 1991 directing all the state governments to set up District Redressal Forums in all the districts.

In Kerala 14 Consumer Dispute Redressal Forums (District Forums) were set up in October 1991 and started to function with effect from November 1, 1991. How successfully have they functioned in one year?

Table 1 shows the details of the cases received by the district forums. It is clear from the table that the number of complaints received by the district forums where the literacy rate is high or almost equal to the state average literacy rate of 89.81 per cent is comparatively higher, except in Pathanamthitta district. In Pathanamthitta district even if the literacy rate is more than the state average of literacy rate consumer awareness is very low, hence the fewer

numbers of cases received. So the importance of education especially consumer education cannot be neglected for effective consumer protection. Moreover it is one of the rights of consumers to get consumer education.

The Consumer Dispute Redressal Forums constitute the main organs of the entire redressal machinery because consumers are at large reaching out to them for redressal of their grievances. Also district forums are easily accessible. But the impact of these forums in the terms of redressals has been poor.

Table 2 shows the details of cases disposed of in favour of consumers, cases rejected or otherwise disposed of and also the cases pending disposal both in numbers and percentages. During the year the district forums succeeded in redressing only an average of 20.93 per cent of the total cases filed. Disappointingly the number of cases rejected or otherwise disposed of by the forums is very high—25.08 per cent of total cases filed. More than half of the cases (53.98 per cent) filed are pending disposal. Inadequacy of staff and tribunals for speedy redressal results in increasing numbers of cases pending disposal. These district forums have financial constraints which hamper their satisfactory functioning. If and only if the financial constraints faced by these redressal agencies are removed

will they have sufficient funds to pay rent, buy stamps, etc. Non-availability of a suitable place for running the office and for hearing the cases has a direct bearing on the low efficiency of district forums. The reason for the very low performance of the Thrissur District Redressal Forum was mainly due to the non-availability of a permanent place for hearing cases. Postal delays, frequent adjournment of cases, etc. contributed to their ineffectiveness.

The high percentage of rejection and disposal of cases reveals the fact that consumer awareness is not enough to enable them to lodge a genuine complaint. Consumers are losing good cases because they are ignorant of the technicalities of the act. False cases are being filed by parties just to hassle the opposite parties. This sorry state of affairs is due to the careless attitude of consumers, reluctance to seek advice, ignorance, etc. Table 2 shows that in six districts the percentage of cases otherwise disposed or rejected is less than average. These six districts are Kozhikode, Thiruvananthapuram, Kannur, Thrissur, Malappuram and Wynad districts. Of these in the first four districts the literacy rates are more than the state average and voluntary organisations are strong and active. In Malappuram and Wynad districts consumer awareness has improved due to the ceaseless efforts of voluntary activists. Since district forums do not render consultancy services to aggrieved consumers the chances of rejection of cases are high in the absence of voluntary efforts.

The operational efficiency of State Commission is no better than that of district forums, (Table 3)

Even though the number of cases and appeals received by the State Commission are fewer than that of majority of district forums, the percentage of cases disposed of in favour of consumers is only 13.97 per cent which is less than the efficiency of the majority of the district forums. The percentage of cases pending disposal are also greater than that of district forums. For increasing the efficiency of the State Commission the effectiveness of district forums should be improved so that the number of appeals and the rejection of appeals can be reduced.

The states and the central government should act as catalysts in the programme of consumer protection by redressal agencies. To improve and strengthen the status of consumers in the marketplace and for quick redressal a separate ministry for consumer affairs is advisable. The government of Gujarat has set up a Consumer Affair and Protection Agency to look after the interests of consumers. Ultimately, however, it is the responsibility of the consumers to make use of the redressal machinery which is possible only with consumer education.

TABLE 2: DETAILS OF CASES RECEIVED AND DISPOSED OF BY DISTRICT FORUMS

District Forums	Total Cases Received	Cases Disposed of				Pending	
		In Favour of Consumers		Rejected/Otherwise Disposed of			
		No	Per Cent	No	Per Cent	No	Per Cent
Ernakulam	4071	655	16.09	1129	27.73	2287	56.18
Kozhikode	3906	1166	29.85	969	24.81	1771	45.34
Kottayam	2077	512	24.65	554	26.67	1011	48.68
Thiruvananthapuram	1893	515	27.20	326	17.22	1052	59.75
Thrissur	1876	102	5.44	349	18.60	1425	75.96
Kollam	1762	354	20.09	605	34.34	803	55.57
Alapuzha	1405	289	20.57	373	26.55	743	52.88
Kannur	1385	323	23.32	164	11.84	898	64.84
Palakkad	1057	228	21.57	349	33.02	480	45.41
Malappuram	857	182	21.24	103	12.02	572	66.74
Idukki	769	114	14.82	330	42.91	325	42.26
Pathanamthitta	695	151	21.73	213	30.65	331	47.63
Kasaragod	396	72	18.18	133	33.59	191	48.23
Wynad	361	50	13.85	49	13.57	262	72.57
Total	22510	4713	20.93	5646	25.08	12151	53.98

TABLE 3: DETAILS OF CASES RECEIVED AND DISPOSED OF BY STATE COMMISSION

Particulars	Total Cases Received	Cases Disposed of				Pending	
		In Favour of Consumers		Rejected/Otherwise Disposed of			
		No	Per Cent	No	Per Cent	No	Per Cent
Complaints	872	149	17.08	300	34.40	423	48.51
Appeal	574	53	9.23	80	13.94	441	76.83
Total/average	1446	202	13.97	380	26.28	864	59.75

Information Technology in Tax Administration

Recent Cross-Country Experience

Amaresh Bagchi

The experience of countries which have made significant advances in the use of modern information technology in tax administration holds important lessons for India.

GETTING the citizens to pay their taxes painlessly—plucking the 'feathers' with no hissing—has been the dream of all governments. The task however has never been simple, until perhaps now, thanks to modern information technology (MIT).

Like in all fields of human activity, with the advent of microcomputers and vast communication networks to connect them, a radical transformation is taking place in the world of taxpayers and tax-gatherers. With enormous capacities for managing and processing data now available at affordable costs, tax administrations around the world are gearing themselves for a new era in which computers will take over most of their functions, enabling them to perform the tasks of implementing the tax laws and providing services to their clients at levels of efficiency unthinkable earlier. Recognising that such efficiency is unattainable otherwise, most countries are now going ahead with plans to adopt the new technology and overhaul their tax administration in preparation. The worldwide movement for radical tax reform aiming at simplicity, efficiency, equity and the growing realisation that after all "tax administration is tax policy" have lent urgency to this move.

In order to review the experiences of countries which have made significant progress in employing information technology to enhance efficiency in fiscal compliance, a conference was held on November 5-6, 1992 at Cambridge (Massachusetts) under the auspices of Harvard International Tax Programme.

From the papers presented at the conference and the discussions that took place it appears that while the use of computers in tax administration is now almost universal, some countries are well on the way to creating a tax regime in which taxpayers and tax-gatherers would not have to face each other at all and taxes will flow smoothly into the exchequer virtually without the use of any paper. Tax returns will be filed, read and processed electronically, demand for any tax due on processing will be notified through the computers and any refund due, credited into the taxpayer's bank account automatically. To help ensure that the tax laws are complied with at a minimum cost, infor-

mation gathered from third parties will be stored in such a manner that they can be accessed by the tax officials dealing with individual cases any time they require. MIT is being applied not only in the implementation of income tax but all major taxes like VAT, customs, and property tax. While the countries represented at the conference are in varying stages of sophistication in computerising their tax procedures and organisation, two, viz, Canada and Singapore, seemed to be ahead of others in using modern technology to operate the tax system and provide a myriad of services to citizens through the network set up for the purpose. This paper presents some highlights of the advances made in Canada, Singapore and a few other countries in this field and seeks to draw lessons for India.

CANADA

Entrusted with the task of not only administering income tax, the largest single source of revenue of the Canadian government, but also providing many of the social and economic services, Revenue Canada, Taxation (RCT) has been using MIT to improve the quality and speed of their service and adding new items on their menu, while cutting costs. With many of the internal services automated, paper work has been vastly reduced, freeing the staff to devote more time to deal with taxfiler issues. Automation of routine telephone enquiries have enabled them to offer longer hours of service to the public. RCT has now added several new services and expanded existing ones. Some of the new services are:

—Tax Information Phone Service (TIPS). Through this, callers can get information about selected tax topics (Info-Tax), status of income tax refunds, registered retirement savings plan contribution limit, and eligibility for payments like credit for goods and services tax paid. Info-tax, available day and night from January to July, provides answers to questions on topics like tax law changes, client services, and new administrative procedures.

—Public facsimile service for correspondence with the tax department.

—Electronic Filing of Tax Returns

(EFILE). Currently this is done through authorised EFILE agents, but the aim is to enable individual taxpayers access to dedicated host computer of the tax department.

—System for electronic notification of debt. This provides an alternative to the current paper system of processing request forms for the tax refund discounting industry.

—Electronic publishing system to provide field officers with access to advance electronic copies of publications and forms. A notable feature of this service is a 'bulletin board system' that allows authorised users to retrieve documents from a central data bank storing documents such as interpretation bulletins, circulars, advance income tax rulings, guides and technical releases regarding publications and forms. With this, field officers can download and print advance copies of forms they require and thereby save on space and paper. In the next phase the public portion of the bank will be made available on user-fee basis.

—Taxation Information Bank (TIB) with appropriate software for electronic documents to be stored and retrieved in a local area network (LAN) for PCs or in a mainframe computer. RCT is developing the required software and using imaging technology for scanning paper documents quickly and correctly.

—Electronic Data Interchange (EDI). RCT has initiated a number of programmes to enable business and government to exchange information and funds. With this, RCT is going to have electronic links with Canadian financial institutions and large employers. The first applications cover large employer payroll remittances.

The self-assessment system which forms the backbone of Canadian tax administration calls for a credible auditing programme. The selection of cases for field and office auditing in Canada depends heavily on RCT's Computer Assisted Audit Selection System (CAAS), which makes it possible to computer screen thousands of tax returns and select those which might require auditing. The selections are made on the basis of business group comparisons and standard ratios and results, derived from information stored in the data bank, after allowing for variations on account of geographic and economic factors.

The compliance programme of RCT that has proved to be most effective is the matching of income reported on returns with information furnished by third parties like financial institutions against legally mandated personal identifier number. Increasingly, such information is being supplied on tapes and will soon be flowing through EDI. Depending on the volume, optical character recognition technology is also being used to put the data into the computers instead of keying them in manually.

A particularly noteworthy feature of Canada's success in automating the activities and services of the revenue department is that many of the software programmes have been developed by RCT's own staff, meeting specific needs which the market did not supply. This is attributable partly to their innovation and excellence award programme and also a high degree of self-motivation on the part of the staff.

UNITED STATES

Although computerisation in its tax administration began in the 1960s, the US is still in the process of applying MIT to the fullest possible extent. The IRS of the United States is currently in the process of implementing a Tax Systems Modernisation Programme (TSM) which will help to dispense with the present labour intensive, paper-based, batch processed, error-prone system and move to a world where the available information can be used, retrieved and delivered electronically. The earlier two attempts to modernise the tax administration system had failed because of Congressional concerns over costs, security of taxpayer information and privacy issues as also software problems. When fully implemented, TSM will cut down taxpayer contacts by six to seven millions annually, increase the number of electronically filed returns to 25 millions by 1995, generate savings of \$ 500-\$ 700 million per annum and improve voluntary compliance.

SINGAPORE

How information technology can revolutionise fiscal operations is demonstrated dramatically by the TRADENET of Singapore. Faced with the task of handling nearly 10,000 trade declarations a day requiring clearance from a number of agencies (Customs, Trade Development Board, Port Authority, and other government controlling agencies), Singapore Customs has been implementing an ambitious computerisation project over a seven-year period beginning 1986. The project aims at computerising and integrating several systems of which three are going to have a profound impact on trading. These are: the TRADENET, Cargo Clearance and Maritime Clearance. The inter-linking of these three systems has provided an integrated Electronic Data Interchange (EDI) network that facilitates import, export and transshipment of goods with incredible speed and efficiency.

Declarations are now filed by traders on their PCs and transmitted to TRADENET for routing to concerned government agencies for processing. This is completed and approvals are granted automatically within 15 to 30 minutes and transmitted to the trader's electronic mail from which the permit can be retrieved and printed for

clearing the cargo—all this without the use of any paper. TRADENET achieves this by setting up a Central Clearing House (CCH) through which various computer systems are connected to each other, using standard formats and communication standards. For enforcement, the customs-in-house system selects a sample of declarations for pre-clearance examination. Apart from assuring better and faster service to traders round the clock and all the year round, TRADENET has effected a saving of \$ 1 billion in paperwork alone to the trading community (1 per cent of the Republic's trade value). It also provides the users with access, for spot reference, to a trade related data base and information on country profile and regulations, trade statistics and so on.

A complementary programme is the 'MAINS' (Maritime Information System) to be implemented in 1992. This is designed to facilitate electronic submission of sea-cargo manifests to government authorities and speedy cargo clearance.

NEW ZEALAND

New Zealand's Future Inland Revenue System and Technology (FIRST) is another example of bold and successful endeavour to apply info-tech in tax administration and use this tax network to provide various services to citizens. The FIRST project was designed to develop 40 integrated systems in three phases. Phase one created the processing centre and communications network. In phase two came the core taxation system comprising client registration, return generation, return and payments processing, audit, correspondence lodgment, file tracking, direct crediting and electronic filing. Phase three was designed to develop compliance and management system (return management, income matching/verification, taxpayer audit case selection, revenue forecasting and executive information system). Of these, only audit case selection and management remains to be implemented.

SPAIN

Spain offers the example of a country that has applied information technology to modernise an outdated tax administration rapidly with remarkable success.

Impelled by the need to raise revenue to meet growing expenditures of the government and to reshape its fiscal system in preparation for joining the European community, Spain embarked on a programme of reform to change its tax system anchored on inefficient indirect taxes into one oriented towards personal taxes and VAT. Initiated in 1977, these reforms led to an increase in the volume of work to be handled by the tax administration which it was ill-equipped to cope with. The annual inflow of income tax returns went up from barely 4,00,000 to over six million in the course of just four

years, while the strength and organisation of the tax department had remained virtually unchanged since the beginning of the century. It was evident that tax reform could not proceed far without an overhaul of the organisation and procedures of the administration. A programme for 'transformation of tax administration' was accordingly launched in 1984. Of the measures initiated under this programme, one set were designed for the expansion of the central and regional tax services and the other related to the provision of human material resources for attaining efficiency and changing the organisation of tax administration.

Two new levels were added to the existing structure which was so long made up mostly of offices (delegation) based in provinces—one (special delegations) above the provincial level to be responsible for management and co-ordination with the central agencies in the ministry, and the other, below the provincial delegations, with 260 tax offices created to bring tax administration closer to the people and for better control over compliance. While staff strength of the treasury was also increased, major efforts were directed towards creation of a data processing network covering all tax delegations and offices, connected, through 'teleprocessing', with the tax data processing computers. To overcome the problem of attracting skilled hands to the public sector, a data processing corps was created with legislative backing and a public finance school was set up for the training of staff in the new technology and tasks.

Early last year (1992) a state tax administration agency was created to help develop a system of management by objectives within a decentralised framework. These organisational changes were coupled with the installation of modern data processing technology. Together with the adoption of self-assessment as the general rule, all these have enabled the tax department to administer efficiently two broad-based taxes, viz. personal income tax and value added tax.

The main pillars of the network set up to support the reorganised tax administration are the regional data bases capable of recording and processing data independently, connected to local units at the lower level and the national data base of the tax data processing department at the higher level. Strong budgetary support was provided for acquiring the equipment necessary to set up a data base system powerful enough to serve a teleprocessing network across the country.

Tasks set for the 1990s envisage, apart from consolidation of what has been created, processing of taxpayer information by segments to achieve cost efficiency in the use of resources in administration and quality improvement of data coming into the system such as by refining the selection of samples used for

analysis and simulation. The content of the existing taxpayer panel on income tax and wealth tax is being expanded to include information on VAT and withholder statistics to help develop quality data by economic sectors which would be available for policy purposes. Plans for the future aim at elimination of paperwork with electronic filing of tax returns and connection with the data processing network. Further progress in the application of MIT in tax administration may have to contend with personnel management problems that may arise from the tension between data processing units and data management units and the concentration in a few units of functions now performed in a number of small units and the consequent contraction of staff requirement.

While the problems of the future will need new approaches for solution, Spain has already succeeded in developing large data processing capacity for its tax administration with the application of MIT tailored to its requirements, producing tangible results. Two outstanding products of this endeavour are the new tax management procedure code and the creation of a tax 'vector', containing up to date information regarding compliance obligations, assessment and payments for each taxpayer. The critical factors underlying the country's progress in this direction have been strong political backing, steady and substantial investment and a centralised organisation.

MEXICO

Application of information technology with integrated or centralised network may not be simple or provide a quick answer to the ills of tax administration in all situations. Mexico provides a classic example.

Mexico's tax system—both legal structure and administration—has undergone radical changes in the last four years. The tax structure has been drastically simplified from one with a multiplicity of sales and production taxes to a regime with a few broad-based taxes and moderate rates. Reform on the administrative side had to contend with extremely low budget allocations and poor civil service salaries. Also, there was very little of central control. Non-compliance notices could be produced only for the few major tax-payers in the three big metropolitan areas; for the rest, there was practically no fiscal presence. Finding that a centralised computer system would not work in this situation, Mexico explored the possibility of appointing a private firm to provide the tax-payer with computer services to be paid out of fees collected directly from the tax-payers and deposited in a trust fund. The contract was awarded to the lowest cost bid. The outcome was a unique outsourcing contract which obligated the new firm to hire 1,300 (former) treasury employees,

plus some outside people, to manage from within all revenue installations, including customs. For corporation tax, a law was enacted requiring annual audit by an authorised public accountant of all firms having sales of more than a stipulated amount or more than 200 workers. The private sector was brought in to perform several of the functions hitherto done by the tax officials. Tax payments were routed through banks and the private sector was allowed to print and distribute tax return, registration and other forms. Contacts between taxpayers and tax officials were reduced by setting up slots through which sealed envelopes can be delivered.

More far-reaching changes have taken place in customs. Goods are still processed by authorised agents and access to this activity has been liberalised. But processing of merchandise is still restricted to a small group and this has helped to modernise customs and implementing a fast computerisation programme. Since January, 1990 information is required to be provided weekly to the treasury on magnetic tapes regarding all foreign trade transactions. This has enabled the treasury for the first time to have timely and complete information on all foreign trade which can be used to inspect individual transactions through analytical electronic means. The data includes information on internal taxes paid at the border and can be used for checking on compliance with VAT. The second stage of the programme contemplates full computerisation of customs procedures. As with auditing of income tax returns, auditors from the private sector are being appointed to go over the work of customs inspectors, with legal authority to rule on the outcome. The private firm to be hired to perform this function will also handle the electronic vigilance of customs areas through close-circuit TV, movement and weight monitors and so on.

While the scope for involving this private sector to handle some of the functions of the tax administration like collection through banks was acknowledged, several participants expressed strong reservations about the wisdom of bringing in the private sector in such activities as audit and inspection of the customs officers' work. It was however recognised that privatisation of some of the revenue administration functions provided an interim solution to the problems posed by constraints of low salaries of officers and procurement restrictions in Mexico.

INDONESIA

How MIT can lift up revenue administration within a relatively short time in a low income country is demonstrated by the success of property tax reform and modernisation of its operation in Indonesia.

Property taxation (PT) in Indonesia has been overhauled in the course of the last six years as part of a comprehensive reform of the tax system which was initiated in the mid-80s. The reform of PT was carried out in two stages; first, legal reform, followed by restructuring of the tax administration and its operational procedures. These were complemented with a collection-led strategy and several innovative operational procedures for PT collection and enforcement, property information collection and management, valuation and assessment.

With these reforms, revenue from PT has grown six-fold, from Rp 154 billion in 1985-86 to Rp 940 billion in 1991-92. In its final phase, which is currently in progress, the reform is designed to improve PT administration by integrating the management of all property related information into a comprehensive system to assist operational, managerial and policy analysis activities (Property Tax Information Management System or SISM!OP). This is sought to be achieved by expanding the existing computerisation efforts and integrating property valuation, collection performance monitoring, information retrieval and tax-payer service (e.g. through a one stop service system). Two prerequisites for the implementation of the SISM!OP have been: Devising a unique property identification system and choosing an appropriate computer-assisted property valuation methodology. With this methodology it will be possible to undertake mass appraisal of property values and carry out periodic revisions at much less cost than before and with less scope for manipulation.

CHILE

Another successful example of a systems approach for creating Information Management Systems for tax administration in Chile. A paper presented at the conference contains a description of the property tax information management system operated by the tax administration in Chile and how it was planned and implemented.

INFO-TECH

Advances in info-tech have led to major changes in real estate 'assessment administration' in the US, too. The new technologies have made it possible to judge more accurately the highest and best use of property, create and maintain an advanced property data base and mapping system, provide for statistical quality control, improve public access to real estate information, and set up mass valuation systems for PT purposes. One of the papers at the conference summarises the advances in the automation of assessment and land record systems and shows how the new technologies can be used to

develop property markets and valuation systems for PT in countries emerging from socialism and also in developing countries in general.

Among the other interesting papers presented at the conference there was one describing a software package developed at UNCTAD to assist the customs services of member nations in fulfilling their trade facilitation function efficiently. Nicknamed 'Automated System for Customs Data' (ASYCUDA), the package is in operation in about 50 countries across the world. While in some countries its adoption has been successful, difficulties were encountered in others because of poor planning and lack of adequate managerial and technical training of the staff involved.

A paper by an official of the European Community gave an account of how info-tech is being applied to develop a VAT information exchange system and administrative co-operation between member states in the EC in preparation for abolition of fiscal frontiers from January 1993. The first part of the system which is being installed under a project contracted out after elaborate fact-finding and feasibility studies is to go into operation soon (November 1992). When fully implemented, the system will enable member states to obtain from each other information regarding VAT registration status of dealers and their intra-community sales/purchases electronically (response time for requests regarding VAT registration data will be 10 seconds; for individual inquiries regarding turnover data, 10 seconds to 5 minutes, and for bulk transfer of turnover data, one day). How the new system operates will no doubt be watched with keen interest.

KENYA

Kenya's experience in modernising financial information system in some of its government departments provides useful lessons for developing countries contemplating introduction of information technology in fiscal administration. Under an IDA assisted adjustment operation, a technical assistance team (TAT) was entrusted with the task of improving the cash flow system in two governments of Kenya. After making a comprehensive study of the existing system, the team established a list of five accounting systems and set about developing the first in priority, viz, an imprest system. While expressing interest in the programme the head of the concerned section held back the necessary support initially. No accommodation or staff were allotted for the system or the computers. As a result, progress was slow. However, when completed, the imprest was seen as a useful check on the prevailing system. While devising the second system the team took care to involve the staff and the section head as much as possible. Now, after two years

since the programme was initiated, and with three of the systems operating, attitudes have changed. Support is forthcoming and the head of the section has requested for additional systems and a terminal for his own use.

This change is attributed to four factors; trust, need, help and urgency. The TAT succeeded in earning the trust of the section staff and the head ultimately because of the thorough knowledge they acquired of the existing system and the genuine interest they developed in improving it. They also took care with thorough testing that the new system performed as promised. That and the strategy of getting the head to review the performance at the pro-type programming stage and their readiness to attend to the wider problems of the accounting section served to strengthen the trust and establish a rapport with the operators and the staff.

It was evident that for a programme of modernisation to succeed, there must be appreciation on the part of the concerned staff of the role of computers in meeting their needs.

LESSONS FOR INDIA

It is increasingly acknowledged that management and processing of information constitutes the essence of tax administration and thus holds the key to effective implementation of tax laws and, hence tax policy. One of the basic factors underlying the weakness of tax administration in developing countries is the absence of an efficient system for storing and processing information relating to taxpayers and transactions bearing on their tax liability. This, more than perhaps anything else, erodes the credibility of the administration, and breeds corruption and laxity in complying with the tax laws.

Without a strong information system the problems of tax administration become all the more acute where the tax base or the population of taxpayers is large, as in the case of a general sales tax or the value added tax or a broad-based income tax. Finding the task of administering such taxes in the conventional way unmanageable, and the costs of examining every tax return individually prohibitive or not worth the gains in terms of additional revenue, tax administrations all over the world are now switching more and more to a system that relies primarily on self-assessment and acceptance of tax returns without question combined with intensive audit ('scrutiny' as it is called in India) of a few. For such a system to succeed, however, it is imperative, first, to ensure that the records of taxpayers are kept in proper order so that all information relating to each taxpayer's tax obligations and status of his/her tax liability find their way into the relevant file as and when received and are stored safely, without risk of loss or tampering, to be retrieved

whenever needed. Secondly, if the contingent threat of sanctions provided in the law against default in compliance or misdemeanour is to be credible, it is also essential to see that the probability of detection of tax offences is perceived to be high even when the cases are audited selectively. That calls for an arrangement in which selection of cases are for audit is carried out with the aid of statistical techniques, using all relevant information culled internally from the returns filed by taxpayers and also those flowing in from third party sources like employers and financial institutions. All this underlines the need for an efficient system for storing and processing information in tax administration.

It may not perhaps be an exaggeration to say that the most important single factor that weakens the efficacy of tax administration in India in implementing the tax laws is the absence of an efficient information system. Cross-country experience narrated in the preceding paragraphs shows that MIT provides a cost-effective answer for the problems of managing information which was not available earlier. The benefits are immense. Apart from providing invaluable support for enforcement activities, MIT enables a tax administration to provide better quality taxpayer assistance and introduce new services which could not be contemplated earlier. It reduces the scope for manipulation and corruption by facilitating recording and storage of vital information without human interference (e.g., by optical character reading) and minimising the need for personal contact between taxpayers and tax-collectors.

Computers have been in use in tax offices in India both at the centre and in the states for quite some time. However, these are used mostly for limited purposes like automating certain functions such as preparing aggregate statistics or as high-speed typewriters, and installed usually in the headquarters of tax departments scarcely with any link with offices in the field or with sister departments. A comprehensive system of record-keeping and processing of data with countrywide network which could permit ready access to users at all levels is yet to be devised.

Some tax departments like customs have in recent years gone in for computerisation in a big way with interconnection among different centres. Sales tax offices in some states are also reported to be using computers to perform some of the functions of information management with encouraging results (e.g., Andhra Pradesh and Gujarat). One hears of plans for computerisation in the income tax department too from time to time but progress so far seems to be patchy and tardy. The manner in which records like tax returns and related documents including vouchers evidencing payment of taxes are

kept impede any systematic monitoring, and, what is worse, leaves open ample scope for abuse and harassment. While the tax system is set to move towards a regime of 'self-assessment' and 'voluntary compliance', scientific methods for selecting cases for audit are yet to be devised. In any case, so far as public knowledge goes there has been no attempt yet to integrate the information system already in place in customs or excise with those of the income tax or sales tax departments. It cannot perhaps be over-emphasised that if the climate of tax compliance in the country is to improve, all-out efforts have to be made to modernise the system of information management and record keeping in the tax departments.

There are, however, several pre-conditions for the successful application of information technology in tax administration, as cross-country experience shows. The critical ones are:

Organisational Change: No major technological change in any institution or agency, whether public or private, can be brought about without appropriate organisational change. In introducing MIT in tax administration, organisational re-engineering is essential to gear the system to a computerised environment. Depending on the nature of the taxes in view, it may be advantageous to organise tax administration by functions rather than sectors (as was done for property taxation in Indonesia). It seems, in India, an attempt was made in the past to allocate responsibilities among officers in the income tax department functionally but the scheme had to be given up because of problems of file movement. It may not be wrong to think that the main reason underlying the failure of that experiment was the reliance on the old, archaic system of record keeping. Functional allocation should be easier to operate when the key information regarding a taxpayer's obligations (like filing of returns and payments) is stored in the computer, with a tax 'vector' created for each tax-payer, as in Spain.

Strategy: There must be an appropriate strategy of technology modernisation which takes into account the likely obstacles and the constraints arising from organisational rigidities such as civil service salary structure or procedural hurdles in acquiring the necessary expertise, hardware and software. The susceptibilities of the existing staff and their resistance to change would in particular need to be taken care of. Kenya's experience shows how important it is to disarm the key players in an administration to introduce new technology. Often it helps to proceed on a step-by-step basis, decomposing the modernisation project into sub-systems. In any case, the strategy should aim at some immediate, demonstrable results to create a 'constituency' for change, while laying the foundations for a longer term, institutional improvement. The consti-

tuency should include not only the operators of the system but also its users. Hence, the need for providing some tangible services or benefits to tax-payers like issuing refunds within say a month of return filing.

In a developing country, it is also important to aim at simplicity. As far as possible, the design, structure and operations of the system should be simple. A complex system is bound to encounter resistance and problems.

In some situations (as in Mexico) it may be advantageous to entrust a part of the responsibility for setting up an information system to organisations outside the government department. In Singapore too it was established by an external agency, though a public sector company. It is salutary to recall that even in a country as advanced as the United States, attempts of the IRS to make fuller use of MIT failed twice in the past apparently for failure to take into account the possible obstacles and devise an appropriate strategy.

Standardisation: For several reasons, it is desirable to standardise the equipment and software. Standardisation facilitates operation, networking and maintenance.

Human Resource: The pace of change, in fact, the success, of a modernisation programme, depends ultimately on human resources—the training and skills of the people who are expected to use and operate the technology. Another critical requirement is incentives and accountability. Technical expertise alone is not enough to assure success in application. Introducing accountability in the public sector in India is a challenge that perhaps holds the key to reform not only in fiscal administration but in the economy as a whole. However, with appropriate reorganisation and functional division of work, it should be possible to introduce suitable incentives and accountability in tax administration.

Supportive Legal Framework: For an information system to be productive in a tax administration, there must be adequate legal backing to ensure the flow of information on financial transactions into the data system and accountability for their safe keeping. In the United States and Canada, financial institutions and corporate organisations are required to furnish information on most major financial transactions (like sale and acquisition of securities, payment of interest, dividend, and so on) to the revenue authorities. In India, there is an aversion to any attempt to require financial institutions like banks to furnish any information on large transactions. Some way must be found to overcome such resistance.

Introduction of MIT with multiple access points to the system opens up risk of leakage of information to third parties. Legal safeguards would be needed to provide the security of information in financial matters of individuals and companies.

Unique Identification: Information technology cannot make much headway in tax administration unless a unique identification number is allocated to each taxpayer. Every country where MIT has been applied successfully to aid tax administration, allotting a unique identification number has been one of the key steps. Without such a number, information can neither be stored properly nor used for any purpose.

Commitment: There must be commitment to change at the highest levels and political, managerial and operational support must be mobilised. This, more than anything else, is a prime requirement.

Experience of several countries shows that often introduction of modern information technology and computerisation generate tremendous enthusiasm among the staff who, given suitable incentives, develop their required software and carry the reform along. But the initial thrust has to come from the highest levels of political leadership.

To conclude, for a country to succeed in implementing the taxes efficiently and equitably—and equity depends crucially on efficiency in tax administration—it must be appreciated by the leaders, legislators as well as the people that no amount of structural reform is going to make any lasting difference to the climate of tax compliance in the country unless tax administration is reformed and motivated. It is also necessary to recognise that no amount of administration reform is possible unless the information system is modernised. Application of MIT is no longer a matter of choice for effective tax administration in any country. How to go about it expeditiously in a given situation is what calls for the attention of policy-makers.

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Bias in Social Consumption

Case of Residential Water in Rajasthan

V Ratna Reddy
M S Rathore

Though drinking water has always been at the top of the priority list of social consumption items, the objective of providing safe drinking water to all sections of the people remains a distant goal. The rural-urban disparities in access to drinking water persist and in the urban areas, in the absence of progressive pricing, a very large proportion of subsidised water is used by the higher income groups. A study of the accessibility and distributional aspects of residential water supply in Rajasthan.

I Introduction

THE scale of social consumption and its distribution across different sections of the society plays a vital role in human capital development. The basic items of social consumption basket include drinking water, sanitation and medical, education facilities, environment protection, etc. While the extent of availability of these facilities is mainly governed by the resource allocation and plan priorities, the pattern of their distribution would influence the inequalities in terms of physical as well as human capital. Further, the regional disparities in the distribution pattern, especially between rural and urban areas, would result in inequalities in the micro environment like hygiene and health. However, since most of these social consumption items are heavily subsidised through government grants, it is necessary that the distribution of these amenities should favour the poorer sections of the society.

Drinking water has always been on top of the priority list of social consumption items, because it is not only essential but also scarce in most parts of the country, especially clean and healthy water. Keeping this in view, the Seventh Plan aimed at providing safe drinking water to all sections of the population besides raising the per capita norms of water supply from 40 to 70 litres per capita per day (LPCD). But, the recent evidence indicates that the achievements of the Seventh Plan are far below the targets. The objective of providing drinking water to all sections of people itself was not fulfilled, let alone increasing the norm. For instance, in urban areas only 72 per cent of the population gets safe drinking (tap) water and the coverage of poor (below poverty line population) is still lower at 66 per cent [Kundu 1991]. The situation is more appalling if one takes the rural scenario into account. Further, in most of the urban areas, in the absence of any significant progressive pricing, a large portion of this subsidised water is used by higher income groups depriving the poor besides resulting in wastage and non-priority use [Kundu 1991].

With this backdrop, the present paper makes an attempt to examine the accessibility and distributional aspects of residential water in Rajasthan. Some of the important issues in this

regard are: (i) access to drinking water in urban versus rural areas, (ii) accessibility across the sections of population, (iii) accessibility in terms of quality of water, i.e. taps, handpumps, tubewells, wells, etc. The data for this purpose, are drawn largely from the 42nd Round (1986-87) of the National Sample Survey (NSS) and supplemented by the earlier rounds, i.e. 28th (1973-74) and 38th (1983). Besides, the data provided by Public Health and Engineering Department (PHED), Jaipur has also been used. Further, in the case of rural water supply problems the analysis is based on a recent field visit to Bikaner district. The present paper is divided into four sections. The following section examines the accessibility to water supply in the regional context. The disparities in access to water supply across expenditure fractile groups are looked into in Section III. And some concluding remarks are made in the last section.

II Access to Water: Rural versus Urban

The data on drinking water accessibility through different sources like taps, handpumps (HP), tubewells (TW) and other sources are provided by 28th, 38th and 42nd Rounds of NSS. The percentage of households having access to various sources of water in rural and urban areas of Rajasthan along with the all-India picture is presented in Table 1. At the all-India level 73 per cent of the households are getting tap water in

urban areas while only 18 per cent of the households in rural areas avail of this service. Though the increase in the coverage appears to be faster in rural areas over the period of 13 years, i.e. from 1973-74 to 1986-87, the rural urban gap is still substantial. Even if one adds the source of tubewells and handpumps (the latter is predominant in rural areas) the gap continues to be considerable. However, the added figures are not strictly comparable because of the addition of one more source, i.e. pucca wells in the 42nd Round. But, it is not clear as to where this source was included in the earlier rounds because there is a sharp fall in all the categories between 38th and 42nd rounds. Therefore, we restrict our comparison only to tap water. Tap water is the safest and easiest source of water available in the country. Though handpumps and tubewells are also relatively safe, they are more labour- and capital-intensive respectively. Tubewells are mostly privately-owned and are mostly used by higher income groups. It may be assumed that handpumps are provided by state mostly in rural areas and urban slums.

The situation in Rajasthan (Table 1) is somewhat better than that at all-India level in terms of population covered by tap water in urban as well as rural areas. According to the latest NSS (42nd Round) data 80 per cent of the urban households are availing of tap water facilities against 24 per cent in rural areas. However, the proportion of urban households covered by tap water facility is almost stagnant between 38th and 42nd Rounds, while the coverage in rural areas has increased from 10 per cent to 24 per cent. Though the coverage is more in Rajasthan when compared to all-India, rural-urban disparities in terms of gap in coverage are almost the same. It may be observed that in rural Rajasthan provision of handpumps seems to be less when compared to all-India level. Moreover, in Rajasthan only 45 per cent of

TABLE 2: PERCENTAGE OF PEOPLE GETTING ASSURED WATER SUPPLY IN RAJASTHAN COVERED BY DIFFERENT SOURCES

	Tap	Tubewell/ Handpump	Pucca Well	All
Rural	98.09	97.26	97.64	95.58
Urban	99.28	97.47	96.14	98.70

Source: Sarvekshana, Vol XIII, No. 4, Issue No 43, April-June 1990.

TABLE 1: PERCENTAGE OF HOUSEHOLDS HAVING ACCESS TO DRINKING WATER BY SOURCE IN RAJASTHAN AND AT ALL-INDIA LEVEL

Round/Year	TAP		TW & HP		PW		Others	
	Rural	Urban	Rural	Urban	Rural	Urban	Rural	Urban
Rajasthan								
28th (1973-74)	4.90	70.73	82.99	25.37	-	-	12.11	3.70
38th (1983)	10.97	81.07	65.08	14.56	-	-	23.95	4.37
42nd (1986-87)	24.43	80.16	19.40	7.10	45.35	11.87	10.82	0.52
All India								
28th (1973-74)	4.69	66.97	72.87	23.10	-	-	22.44	9.93
38th (1983)	8.72	70.50	56.45	15.30	-	-	34.83	14.20
42nd (1986-87)	18.77	73.57	31.88	13.98	35.31	9.38	14.04	0.60

Notes: (i) TW= Tubewell, HP= Handpump, PW= Pucca well

(ii) Others include the natural sources like canal, spring, etc.

Source: Sarvekshana, Vol XII, No. 2, Issue No 37; October 1988 Vol XII, No. 4, Issue No 43, April-June 1990.

the rural population avails itself of safe drinking water as against 50 per cent at all-India level. As for the coverage of safe drinking water facilities in urban areas, 81 per cent of the towns are only partially covered and need extension of distribution network. On the rural front 16 per cent of the villages are identified as problem villages, i.e. receiving less than 40 L.PCD of water. However, the actual situation in rural areas appears to be much more precarious than projected by official estimates, especially in low rainfall years. For, these figures do not indicate the nature of water supply (perennial or seasonal).

The 42nd Round of NSS provides some data on percentage of people reporting their source of supply as perennial. According to these estimates 95 per cent of the population in rural areas against 98 per cent in urban areas are receiving assured water supply throughout the year (Table 2). The extent of assured water supply appears to be slightly more in urban areas. The sourcewise perenniality also indicates that tap water supply is more assured than other sources like tubewell/handpump and pucca wells which are the major sources in rural areas. Thus, rural areas are at a disadvantage not only in terms of accessibility to safe drinking water but also in terms of assured supply, indicating that rural people face more frequent shortages of water compared to their urban counterparts. In this context, it is interesting to note that on an average the public handpumps supply water only for nine months in a year and 30 per cent of the installed handpumps are out of order in Banswara and Dungarpur districts of Rajasthan [Narula and Rathore 1986]. Hence, the access to drinking water may be much less than what the official estimates indicate.

Another important aspect of rural-urban disparity concerns the question of who is providing water in these areas. Although state is the major agency, providing basic amenities, there are also other agencies working in this field. These agencies include community organisations, charitable trusts and private households. These agencies are more active in the regions where state support is less than satisfactory. When drinking water is provided by these agencies, some amount of participation, either in terms of financial or otherwise, is required from the consumers. The financial burden would be much less when some charitable trust is providing the water than when the households work on their own. On the other hand, public distribution systems are preferred, as they provide assured and safe drinking water at a lower price. Thus, it becomes pertinent to look into the proportion of people covered by various agencies in rural and urban areas. The agency-wise coverage of population by source in urban and rural areas is presented in Table 3.

It is interesting to note that only 48 per cent of the rural population is covered by public water distribution as against 81 per cent in urban areas. The rest of the population is mostly covered by other agencies, bulk of which is through private investment and community organisations. The coverage by charitable trusts is marginal in both rural and

urban areas. These disparities indicate that while the subsidised and safe drinking water is being provided to urban areas, rural areas are rather neglected and left to themselves. Paradoxically, the water supplied to urban areas is often brought from far-off rural areas. Moreover, there are a number of instances where urban water is given priority depriving the villages close to the supply line.

The expenditure on rural and urban water supply schemes in Rajasthan during the Seventh Plan period is a testimony of the bias towards urban water supply schemes. The per capita expenditure on water supply schemes is three times higher in urban areas as compared to that in rural areas (Table 4). Besides, while in the case of urban areas the stress is on providing safe and adequate water, in the case of rural areas the objective is simply in terms of covering number of villages with drinking water facilities [Government of India 1990].

As a consequence the actual conditions in rural areas are more appalling and of serious nature. The problems in rural areas are multipronged. They are faced with limited supplies which are again seasonal, poor quality of water and also in terms of effort they have to put in order to fetch water.

Traditionally the rural Rajasthan has been dependent on indigenous water harvesting systems for drinking water purposes. These are known as 'nadis', 'bawadies', 'kunds', 'khadins', etc. Of these, kunds are typical of Rajasthan, especially in the desert regions. Rainfall being very scanty in the desert districts people of these regions harvest the available rain water in a well kind of structure (kund) [for details on these traditional structures, see Rathore 1991]. It is pertinent to note here that the actual requirements of water in these regions are low when compared with others due to their habits commiserating with the perennial water scarcity. Recycling of water is being followed in these regions traditionally and the wastage of water is very marginal when compared to the urban and rural areas in other parts of the state.

The state intervention through providing drinking water to rural areas has reduced these traditional systems to disuse and made the rural people dependent on state rather than being self-sufficient. Our field visit to

Bikaner district, which falls under Indira Gandhi Nahar Pariyojana (GNP) command area, unavailed some of the problems in rural water supply. Being in the command area, it was expected that these regions will no longer have drinking water problems. The major problem of desert regions is that they are very sparsely populated and hence provision of infrastructure in these areas proves very difficult. In the IGNP command areas water schemes are provided for four-five villages falling in the radius of 2-5 km.

Given the distance between villages and diggies (water source) most of the villagers avail these sources only when there is no water in the distributaries. But, in the case of villages located in the tail-ends of the distribution systems they have to rely on these sources throughout the year as they rarely get canal water. Though the provision of these sources appears to be appropriate and helpful in mitigating the drinking water problems in these villages, in practice no care is taken to maintain these sources. In most of the cases there is no maintenance, whatsoever, of these structures. They are silted up with sand and cattle are also found using these sources directly. The quality of water is so bad that one can see with naked eye the bio-mass formation in these structures. Moreover, these structures are not filled with water regularly due to lack of water in the distributaries. As a result even the filtered water is not devoid of bio-mass formations. And in some cases these structures have fallen into disuse due to lack of water. Though the villagers are aware of the quality of water they do not have any choice. For, the traditional water harvesting

TABLE 4: YEARWISE PER CAPITA ACTUAL EXPENDITURE ON WATER SUPPLY SCHEMES IN RURAL AND URBAN AREAS

Year	Actual Per Capita Expenditure (Rs)	
	Rural	Urban
1985-86	16.06	44.65
1986-87	9.30	34.25
1987-88	9.43	34.61
1988-89	9.24	33.53
1989-90	12.67	41.26
1990-91	8.81	36.69

Source: Government of Rajasthan, Draft Annual Plan Rajasthan 1990-91, Vol II, Planning Department, Jaipur.

TABLE 3: PERCENTAGE DISTRIBUTION OF PERSONS COVERED BY VARIOUS AGENCIES BY MAJOR SOURCE OF DRINKING WATER IN RAJASTHAN

Source	Government		Community		Charitable		Others*	
	Rural	Urban	Rural	Urban	Rural	Urban	Rural	Urban
Tap	83.37	93.42	3.44	0.31	1.30	0.64	11.89	5.63
Tubewell/								
Handpump	92.57	67.17	0.93	4.06	0.34	3.26	6.16	25.15
Pucca well	13.87	8.62	44.27	54.79	4.59	10.73	37.33	25.85
Tanks and								
Ponds	29.67	—	28.57	93.39	2.95	—	38.81	6.61
All	48.04	81.14	24.52	7.28	2.84	2.03	24.60	9.55

Note : * Other agencies mainly comprise the households themselves.

Source : Sarvekshana, Vol XIII, No 4, Issue No 43, April-June 1990.

systems (kunds) were neglected after the advent of canal networks and the consequent diggi structures. The use of unhygienic water has led to the spread of malaria in a large way in these regions during 1992.

The rural water supply schemes do not charge the consumers for the supply of water through spot sources. Given the existing supply systems one cannot even think of pricing of water in rural areas. From the government angle the rural water supply schemes are fully subsidised whereas the urban consumption pays for water. However, the conditions of water supply in rural areas both in terms of quality, quantity and even accessibility are often neglected. Though government does not charge for water the rural people are paying for water to private people. For instance, the mismanagement of the diggies has led to the development of water markets for drinking water in some of the villages. The main reasons for this development are: Firstly, the distance between the diggies and the villages. The distance would be as far as 5 km in some cases. Some of these villagers, especially poor who cannot afford to have tankers (camel carts) to fetch water, buy water from others who have tankers. In some villages only outsiders are found to be selling water. The poor families resort to buying water either because they do not have enough family labour to fetch water or it is not economical to spend labour for fetching water as they have other avenues of employment. Secondly, in some villages the diggies are dried up consequent to lack of water supply from the canal system. The tanker owners charge at the rate of Re 1 per pitcher (10-15 litres). In one of the villages, where water is supplied by outsiders (because none of the villagers own a camel cart), an average family spends Rs 300-400 per month on water. The poorest of the families walk about six-nine km every day to fetch water and they try to adjust with two pitchers (20-30 litres) as against 10 pitchers in the normal course.

Thus, the situation warrants immediate concern towards rural drinking water supply schemes. Drinking water requirements are totally neglected in the canal command areas assuming that once the canal systems are provided water will be plentiful. On the contrary, they disrupted the old systems of water supply and made the people more dependent. Moreover, the programmes of state intervention in the provision of social consumption items have not taken the available local knowledge into account and failed to involve the local people which is vital for sustaining these programmes in the long run. On the other hand the alienation of people from these programmes made them more dependent on state. And they end up paying for water much more than their counterparts in urban areas. In fact, they pay as much for 15 litres of water as the urban consumers pay for 1,000 litres. Though this phenomenon is seasonal in rural areas, given their low ability to pay and quality of water available they are not getting the fair deal.

The preceding analysis indicates that urban areas are given priority in the provision of

basic amenities such as drinking water over that in rural areas. This kind of bias would tend to aggravate rural-urban disparities. These inequalities, if uncorrected, would have serious long-run repercussions as the water supplied is subsidised. In the absence of minimum revenue generation, the long-run sustainability of the distribution system may be endangered. However, it may be noted here that, basic social services in developing

countries are often either free or provided at a very small charge. The justification for this is that society as a whole often gains, even when services are provided to individuals. But, this basic assumption may be distorted if there are biases in the distribution pattern. Hence, it is pertinent to examine some of the issues such as: Who is the ultimate beneficiary of these services? And, whether the user can pay for the service or not? Basic social

TABLE 5: PERCENTAGE OF PEOPLE COVERED BY MAJOR SOURCES OF DRINKING WATER ACROSS FRACTILE GROUPS IN RURAL RAJASTHAN

Fractile Group	Tap	Tubewell and Handpump	Pucca well	Tank/pond	River, Canal and Spring	Others
0-5	23.36	20.80	43.13	1.67	5.51	5.53
5-10	23.40	22.75	49.66	—	1.78	2.41
10-20	19.68	18.62	47.30	7.80	4.72	1.88
20-30	15.30	22.05	57.07	2.03	3.00	0.55
30-40	25.88	18.56	45.14	4.93	3.71	1.78
40-50	25.64	12.84	48.26	3.19	7.06	3.01
50-60	26.09	21.79	42.74	2.88	2.41	4.09
60-70	29.28	16.74	42.83	1.66	6.26	3.23
70-80	24.11	16.50	42.83	5.82	7.61	3.13
80-90	30.44	15.93	45.32	2.68	3.25	2.38
90-95	20.87	18.31	52.05	4.17	4.14	0.46
95-100	28.82	23.39	41.76	4.67	1.36	—
All	23.95	18.50	46.98	3.38	4.55	2.64

Source: Based on *Sarvekshana*, Vol 13, No 4.

TABLE 6: PERCENTAGE OF PEOPLE COVERED BY MAJOR SOURCES OF DRINKING WATER ACROSS FRACTILE GROUPS IN URBAN RAJASTHAN

Fractile Group	Tap	Tubewell / Handpump	Pucca well	Others
0-5	58.11	11.90	24.92	5.07
5-10	65.76	16.74	17.50	—
10-20	77.41	5.97	15.70	0.92
20-30	77.22	5.93	16.85	—
30-40	84.01	9.31	6.36	0.32
40-50	80.50	7.56	9.82	2.12+
50-60	85.19	2.53	12.28	—
60-70	78.49	9.70	9.69	2.12*
70-80	86.53	7.30	6.35	—
80-90	93.73	6.27	—	—
90-95	87.02	4.03	8.44	0.51*
95-100	97.07	1.40	1.53	—
All	79.70	7.66	11.72	0.92

Notes: + Includes tankers. * Pertains to tanks and ponds.

Source: Based on *Sarvekshana*, Vol 13, No 4.

TABLE 7: PER CAPITA GOVERNMENT SUPPLY OF TAP WATER THROUGH SERVICE CONNECTIONS AND STAND POSTS IN RAJASTHAN

Town	District	Per Capita Supply (LPCD) by	
		Service Connection	Stand Post
Vijayanagar	Ajmer	39.50	2
Banswara	Banswara	145.61	50
Kushalgarh	Banswara	84.30	25
Kalyan	Dharaput	81.75	15
Weir	Bharaput	104.36	15
Amer	Jaipur	64.16	52

Source: Public Health and Engineering Department, Jaipur.

services like drinking water should be targeted at the lower income and deprived sections of society who cannot afford to pay for the services. On the other hand, the services provided to higher income groups should be priced appropriately. Here, proper pricing mechanism would not only improve economic viability of the schemes but also reduce wastage and non-priority use of water. Keeping this in view, the following section is devoted to examining the distributional pattern of water across various sections of the population within rural and urban areas.

III

Access to Water: Poor versus Rich

This section is based on the 42nd Round of NSS which provides data on percentage of people having access to water supply facilities in different expenditure fractiles. For this purpose, all the households belonging to a state had been arranged in ascending order with regard to monthly per capita consumer expenditure. The estimated number of households corresponding to each sample household have been cumulated to arrive at the total number of estimated households. Since the basic fractile classification is at 10 per cent level, there will be 10 exclusive groups, each accounting for approximately 10 per cent households. But, in the present case the bottom decile (0-10) and top decile (90-100) groups were further split into two fractile groups at 5 per cent level. Therefore, the number of fractile groups presented is 12 instead of 10.

The estimates pertaining to the percentage distribution of people availing of the major sources of drinking water over the fractile groups are presented separately for rural and urban areas in Tables 5 and 6 respectively. As mentioned earlier the safest and most convenient sources of drinking water is of tap water followed by tubewells and handpumps. The disparities regarding access to water are very conspicuous especially in urban areas. Tap water is mostly availed of by the higher expenditure classes while it is the other way round in the case of other sources of water supply. For instance, in urban areas, 97 per cent of the highest expenditure group avail of tap water as against 58 per cent in the lowest fractile group. The disparities are much less in rural areas; here 28 per cent in the highest fractile group use tap water as against 23 per cent in the lowest expenditure group. It can also be observed that there is a gradual increase in the proportion of people covered by tap water supply along with the fractile groups in urban areas whereas in rural areas the use of tap water is fairly equitably shared by different expenditure groups. This pattern is more or less similar in the case of other sources also. This indicates that the public distribution of water is more equitably distributed in rural areas as compared to urban areas.

Thus, it is clear that a major portion (above 80 per cent) of subsidised water is used by the urban rich (house connections) to the neglect of urban poor and rural areas. Though the disparities in access to drinking water in

urban areas approximates to the all-India picture, the distributional pattern in Rajasthan is more skewed in favour of rich [see for all-India estimates Kundu 1992]. In terms of per capita supply also the rich (with service connections) are much better off when compared to the poor (availing of stand post supplies). In the towns for which stand post supply data is available, the per capita supply is far less than that to service connection users (Table 7). Moreover, supply of water through stand posts is often erratic and for shorter durations.

This inequitable distribution of water supply in urban areas in Rajasthan is no different from other Indian cities [Kundu 1991]. In most of the towns and cities stand posts are provided for slum dwellers. The low per capita water supply through stand posts is often far below the prescribed norm and aggravates the already existing sub-human conditions in the slums.

Larger per capita supplies to the high income groups may result in inefficient allocation of a very scarce resource like water. Moreover, this kind of wastage of water by some sections of the population when certain sections are deprived of water would perpetuate the prevailing unhealthy conditions. Further, the huge amounts of subsidy going into drinking water supply coupled with the bias in favour of the rich may aggravate existing disparities in the level and quality of basic amenities.

IV

Conclusions and Implications

Our analysis brings out clearly that public distribution of drinking water is highly skewed in favour of urban areas and the rich. The distribution pattern is more equitable in rural areas when compared to urban. This has a bearing on two important issues: First, perpetuation of rural-urban disparities in terms of social consumption which is vital for human capital development. In the light of the recent policy pronouncements of giving industrial status to agriculture, provision of basic amenities in rural areas is very crucial. Lack of clean drinking water facilities is detrimental to the healthy growth of society and adversely affects the productivity and efficiency levels.

Second, the broader issue of pricing of water needs to be looked into. A proper pricing mechanism would have various implications on managerial and distributional aspects. At the management level pricing can be used to reduce inefficiencies in water usage and would help reallocating it to other priority uses. Pricing also should help improve the resource position of the supplying agencies. This in turn would help in developing sustainable supply systems in the long run. Further, these funds can be used to serve the deprived and vulnerable sections who cannot afford to pay for water. Even in the rural areas, where most of the households have low incomes to pay for water need to be given high priority in terms of accessibility to clean and safe drinking water. The reason for the existing urban bias in water supply does

not seem to be entirely economic, because although the rural-urban disparities in this regard exist in most of the states, there are states where the disparities are much less. For instance, the coverage of percentage of population in urban and rural areas respectively of Himachal Pradesh (92.28, 90.72), Tripura (80.67, 84.52), Karnataka (79.62, 83.16), Maharashtra (79.25, 87.45), Gujarat (76.87, 85.86) and West Bengal (76.50, 73.04) [Sarvekshana 1990]. This indicates that the benefits of subsidised water are not distributed equally in Rajasthan. It appears that urban areas are given priority in providing basic amenities, like water, neglecting rural areas.

The urban consumer belonging to the higher income bracket can afford to pay the real price of water. However, whether to price the water at marginal cost or average cost, in order to achieve high efficiency levels of allocation, is a debatable issue. In the absence of any scientific study on this aspect in the Indian context and with the populist programmes followed by the state one cannot expect drastic changes in the price structure in short run. But, keeping the long-run interests of society in view and for making the supply agencies sustainable it would be wise to allow them to cover at least their working expenses through pricing. Moreover, the state should also improve the distribution systems in slums and other localities where people cannot afford to have individual service connections. Fetching water from far-off places would further add to their drudgery.

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Stagflation, Unemployment and Oligopoly

S R Sen

How best to deal with the growing oligopolistic and oligarchic trends with a view to ensuring that their adverse effects on employment and economic growth are minimised remains one of the most important questions facing Indian policy-makers.

DURING the three decades which followed the publication of Keynes' *General Theory of Employment, Interest and Money* in 1936, there was euphoria among most economists about its analyses and prescriptions. Those who were dissatisfied with the functioning of both the market economy and the command economy felt that it provided an attractive via media between the two. Although Keynes himself related it primarily to the developed countries or industrial economies, some of his followers applied his thesis to developing countries or pre-industrial economies also. The prescription for using deficit financing (or cheap credit policy) for correcting unemployment in the former and for promoting economic development in the latter followed from this.

STAGFLATION

No doubt, some economists like Hayek and Friedman who favoured *laissez-faire* or like Lange and Myrdal who favoured economic planning found faults in Keynes' approach. But they were relatively few in number until the mid-60s. However, after the onset first of stagflation and later of slumpflation from the late 60s and especially during the 'oil shocks' of the 70s and their aftermath, there was a growing feeling that Keynes' basic thesis (later formalised in the Phillips Curve) that there was an inverse relationship between rise in the price level and unemployment was incorrect even for developed countries where there was greater homogeneity and good communication, not to speak of developing countries which had greater heterogeneity and poor communication.

The accompanying table shows that in seven of the leading developed countries both prices and unemployment rose and there was either stagnancy or even slump in growth of GDP not only during 1974-79 but also in 1963-73 and 1992. Some economists ascribed this to 'oil shocks' and similar extraneous factors. But the fact that the same phenomenon was discernible, although to a smaller degree, both before and after the two main oil shocks disproves this contention. In many developing countries the situation was worse.

It is interesting to note that the unemployment situation was better in Japan where there is no trade union but only company union. As regards productivity, India's record of 3.3 per cent for 1971 to 1979 and 4.9 per cent for 1981 to 1989 compared favourably.

Some supporters of Keynes held that Keynes had made a clear distinction between 'involuntary' and other kinds of unemployment and therefore it was incorrect to correlate with changes in price level the available data for the total unemployed, which included figures for voluntary, frictional and structural unemployment in addition to involuntary unemployment. Particularly for developing countries, the proportion of frictional and structural unemployment tended to be high. Unfortunately, the available data for different kinds of unemployment are so mixed up that it is not possible to separate the data for 'involuntary' unemployment with any accuracy. Nevertheless, at least for the developed countries where the proportion of 'involuntary' unemployment to other kinds of unemployment tended to be high and for which the employment data available for an earlier period was used by Phillips to confirm Keynes' thesis, the same kind of data for more recent periods tended to support the basic contention of the critics of Keynes who hold that the phenomenon of so-called 'stagflation' or 'slumpflation' that was experienced in the late 60s, 70s and even 80s needs other explanations also.

UNEMPLOYMENT

It may be useful to clarify here that 'stagflation' describes a situation where unemployment rate is high, the price level is rising and growth of GDP is low as in Canada, France, Italy in 1974-79 and 'slumpflation' describes the situation where the price level is rising, unemployment rate is high and the growth of GDP is negative as in UK and West Germany in 1992. According to Keynesian theory involuntary unemployment and a rising price level should not co-exist. The question is how have they coexisted for such long time in a number of developed countries as noted in the table.

Between the unemployment situation as envisaged in Keynes' *General Theory*, when employment increases and price level does not rise with creation of additional money, and the full employment situation as envisaged by Hayek in his *Prices and Production* when the price level rises and the structure of the economy gets distorted as a result of forced saving' caused by creation of additional money and the presence of a high degree of specificity in the factor market, there is an intermediate zone where there may coexist both rising price level and rising unemployment. The basic cause is the phenomenon of 'disproportionalities' or of 'varying degrees of scarcities' or 'specificities of different factors', relatively to the prevailing pattern of 'effective demand'.

Specificities of different kinds of labour is one of the most important considerations in this context of 'disproportionalities'. Labour

TABLE: ANNUAL AVERAGE RATES OF CHANGES OF CONSUMER PRICES (P), UNEMPLOYMENT (U) AND PRODUCTIVITY GROWTH (G) FOR THE SEVEN LARGEST OECD ECONOMIES IN 1963-73, 1974-79 AND 1992

Countries	P	U	G
Canada			
1963-73 (per cent)	4.6	4.8	2.4
1974-79	9.2	7.2	0.1
1992	2.3	10.8	1.3
France			
1963-73	4.7	2.0	4.6
1974-79	10.7	4.5	2.7
1992	2.1	10.5	0.8
Italy			
1963-73	4.0	5.2	5.4
1974-79	16.1	6.6	1.4
1992	4.5	9.8	0.8
Japan			
1963-73	6.2	1.2	8.7
1974-79	10.2	1.9	3.3
1992	1.3	2.3	0.1
UK			
1963-73	5.3	3.0	3.0
1974-79	15.7	5.3	0.8
1992	1.8	10.5	-0.1
USA			
1963-73	3.6	4.5	1.9
1974-79	8.6	6.7	-0.1
1992	3.2	7.0	3.2
W Germany			
1963-73	3.6	0.8	4.6
1974-79	4.7	3.2	2.9
1992	4.2	7.7	-0.2

Source: OECD, *Economic Outlook*, Paris various issues

differs from other factors in the sense that it cannot be stored as such and its price tends to be relatively 'sticky' partly due to trade union pressure and partly due to the importance of 'continuity' as explained by Hicks. Further, 'specificities' in the labour market tend to multiply as an economy develops and specialisation increases.

If labour were fully homogeneous, having no 'specificity' and freely transferable both over jobs and space, and real wages were not higher than marginal productivity of labour, the phenomenon of stagflation would not have occurred, specially in a situation of fully competitive market economy and absence of oligopoly.

But increasing pressure from the trade unions, *which are in themselves oligopolistic organisations*, is tending both to keep up the level of wages and to equate wages in different sectors. In sectors where the real wages are equal to marginal productivity of labour, full employment conditions exist. But in sectors where the real wages are higher than marginal productivity of labour, unemployment persists. (If factors like higher oil prices increase cost and reduce the marginal productivity of labour, it is only a difference of degree and not of kind.) No across-the-board measure like monetary policy will be able to correct by itself the disparity in the relation between real wages and marginal productivity of labour in different sectors.

It may be said that in the long run, this problem will be sorted out with the modification of relative scarcity of specific factors and pattern of effective demand.

But the 'long run' is a myth in such a context. It is no more than a series of 'short run' snapshots. If these 'short run' snapshots are not part of the same scenario and in sequence, the long run 'movie' will be 'jerky' and possibly chaotic.

Further, we may conceive of a number of 'islands' between which information regarding wages moves and trade unions make use of it. But labour does not move. The marginal productivity and effective demand situation in these 'islands' are different. There may be full employment equilibrium in those 'islands' where marginal productivity of labour is equal to real wages and less than full employment equilibrium in other 'islands' where marginal productivity of labour is less than real wages, the reason being that money wages have been equated due to trade union pressures but the marginal productivity of labour and effective demand situations remain unchanged. The overall picture for all these 'islands' would be then the coexistence of inflation and unemployment.

It may be recalled here that the original Phillips curve claimed to demonstrate on the basis of data collected for a large number of years, the presence of an intermediate curve which is negatively sloped and to indicate a possible trade-off between the percentage rate of change in money wages and per cent

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of unemployment.

Phillips himself sought to explain this through a theory of 'demand pull'. But Lipsey pointed out that 'cost push' could be an equally valid explanation.

Before however this controversy could be resolved, there was a basic change after 1965 in UK and some other developed countries in respect to the Phillips' relations. There was coexistence of increasing percentage rate of money wages and increasing percentage of unemployment or a *positively sloped curve*. Some people felt that this change invalidated the Phillips' curve and theory. Some others felt that it only indicated a *shift to the right hand* of the Phillips' curve and did not invalidate the concept as such. There was a view that sharp rise in import prices, especially oil prices, leading to 'uncertain expectations' of further inflation was responsible for this sharp change. Increased *variability* of factual or anticipated inflation is given as a cause by some others.

SOME QUESTIONS

The questions that arise are:

- (i) Is Phillips' curve relevant to the issue of stagflation and stagnation?
- (ii) What is the validity of demand pull and cost push theories?
- (iii) What is the validity of the institutional or sociological theories like role of trade unions and other oligopolies, prevalence of fix-prices, etc?
- (iv) What is the role of uncertainty of expectations?

It may be noted here that if the demand pull theory is accepted, the remedy suggested includes:

- (a) Demand management (through fiscal policies) on Keynesian lines. The role of expectations in such a context also needs attention.
- (b) Money management (through controlling quantities of money, indexation and floating foreign exchange) on the lines advocated by Friedman.

If the cost push theory is accepted, the remedy may be:

- (a) Labour management (through persuasion of trade unions, prices and income policy) as suggested to Meade.
- (b) Investment management as suggested by Hicks.
- (c) Monitoring of other oligopolies and promoting competition among them.

On the other hand, if demand pull, cost push, pressures of trade unions and other oligopolies, role of fix price upwards, disproportionalities, uncertainty of expectations, etc, are relevant in some way or other, the causes and remedies for stagflation and slumpflation may be better sought in the kind of broader analyses of the interactions of monopoly profit seeking oligopoly and quasi-rent seeking oligarchy of different degrees of intensity as suggested in the present writer's earlier article, 'Economics of Oligopoly in Oligarchy' (EPW, March 28, 1992).

The ratchet (or upward fix-wage or fix-price) phenomenon applies not only to one kind of oligopoly, viz, trade unions, as assumed by Keynes, but also to other kinds of monopoly profit seeking oligopolies in which the corrective forces of competition are not adequately effective especially under a situation of quasi-rent seeking oligarchy in which the corrective forces of democracy are also inadequate to ensure social welfare as distinct from private gain. In such a situation the coexistence of rising price level and low production and employment levels as compared to both fully competitive or discriminating monopoly conditions or the phenomenon of stagflation and slumpflation are not difficult to explain.

From this standpoint Keynes' general theory of employment would appear to be only a particular theory of employment and certainly not a general theory of development as some of his followers thought it to be.

A more meaningful theory of stagflation and slumpflation would have to be developed on the lines indicated in the above noted article. Appropriate policy recommendations should also follow from that.

On the whole it would appear that piecemeal approaches like demand pull, cost push, etc, and relevant corrective actions suggested by various economists as noted above have to be reconsidered as parts of a more comprehensive approach. Both monopoly-profit seeking by oligopoly and quasi-rent seeking by oligarchy would have to be curbed through ensuring adequate competition among the former and effective democratic pressure on the latter. Some sort of social planning, largely indicative but also partly imperative planning, by true representatives of the people would then be necessary if both growth and social welfare are to be promoted. The risk, however, is that this kind of planning may easily degenerate into bureaucratic planning which has been tried and has failed in recent past in a number of countries.

It would appear then that a right kind of political system is essential if the right kind of economic system has to be ensured.

INDIA

One obvious question that arises in this context is what is the relevance of stagflation and slumpflation in a developing country like India, especially if there is a trend towards more oligopolies, including trade unions, in a significant oligarchy.

(i) It is important to recognise clearly that the fix price upwards or 'ratchet' tendency is a basic feature not only of trade unions but of all oligopolies where the force of competition or countervailing action by the society is not strong enough.

(ii) Special note will have also to be taken of the fact that in a country like India, involuntary unemployment is relatively small and there is 'dual economy'. In any case, labour is less specialised in the primitive parts of the economy while there are many 'islands' of

the type mentioned above in the developed parts of the economy. This is a result of underdevelopment itself.

(iii) Bulk of unemployment in India is not only frictional but also structural.

Remedies of the type advocated by Keynes or Friedman or Meade or Hicks may not be adequate for India. Our dependence on deficit financing based on the Keynesian thesis has been found to be counterproductive and needs very careful review, especially because the basic problem in India is not so much involuntary unemployment as structural and frictional unemployment arising out of oligopoly in the organised sector and underdevelopment in the unorganised sector. Oligopoly in organised industry and organised labour has been strengthened by our industrial regulation and development and trade union laws. Investment planning by a bureaucracy has promoted oligarchy. Demand management has also been attempted through physical and monetary controls, planned and implemented by a bureaucracy which has tended to be too late and do too little in reacting to a fast changing world. All these have tended to contribute to the rather unsatisfactory development of the Indian economy.

The contrast between the Indian and, say, Japanese situation in this regard is worth noting here.

On the labour front, the system of company unions in Japan resulted in much less rigidity as compared with the system of big trade unions in India.

On the industry front, even big corporations in Japan had to be very efficient and flexible because they were export-oriented and faced stiff competition from rivals in other countries in contrast with India where a *swadeshi* or import substitution policy and undue bureaucratic control over industrial investment and operation curbed competition among the big companies.

How best to deal with the growing oligopolistic and oligarchic trends with a view to ensuring that their adverse effects on employment and economic growth are minimised remains, therefore, one of the most important questions facing Indian policy-makers today.

To conclude, India will be well advised to make its Monopoly and Restrictive Trade Practices Commission much more alert and effective than today, replace trade unions by company unions and ensure that there is adequate competition among all oligopolies in both private and public sectors and enough transparency and accountability in government. A legislature based on a sound election system and a press which is truly free and objective, somewhat on the lines recommended in the present writer's article, 'India's Political System: What Is To Be Done?' (EPW, January 2-9, 1993) should prove helpful. Insistence of transparency, prevention of collusion and primacy of *general* welfare (as against *sectional* gain) should be the motto of all concerned.



EXCERPTS FROM THE SPEECH MR. MANTOSH SONDH SEVENTH ANNUAL HELD IN BOMBAY

The Economy

In 1991, the Indian economy was faced with a huge balance-of-payment deficit. The Government had, therefore, little choice then but to embark on a stabilisation programme which unshackled industry from regulations and licences. It was recognised even at that time that this macro-economic restructuring programme will not be without pain.

To start with, apart from the balance of payments position, the Government was rightly obsessed with two other important factors - fiscal deficit and inflation. Inevitably, since the emphasis was on slashing Government spending to curb the fiscal deficit, the country was bound to suffer a recession. The credit squeeze and high interest rates helped to tame inflation, but these also affected fresh investments and slowed down the pace of industrial and economic growth. Your Company's order book position consequently suffered from this demand recession.

After causing much pain and hardship, it does appear that with inflation under control and the foreign exchange reserves at a healthy level, the first phase of the reforms is over. In this context, the single most prominent feature of the Union Budget 1993-94 is the unambiguous confirmation of the continuation of the liberalisation process.

The reduction in the minimum lending rate to 16% is a welcome step and will surely help improve the investment climate in the country. By international standards, however, our interest rates and rate of corporate taxes are still far too high. If the recent trend in inflation, exports and the balance of payments is sustained there would be a strong case for a further reduction in interest rates. This together with a reduction in the rate of corporate tax is an essential ingredient to fuel the economy's engine of growth.

Removal of some anomalies in the duty structure is also essential to provide a level playing field for Indian industry to effectively perform not only to cater to the growing domestic market, but to also emerge as a global player.

The Emerging Power Scenario

The Indian power sector is at the cross roads. With demand for power outstripping supply, the Government has limited options. The poor plant load factors, high transmission and distribution losses, the poor management of the State Electricity Boards, the subsidized tariff rates of the agricultural sector have all combined to drive Electricity Boards to the brink of bankruptcy. The only route for survival of the SEBs as viable units will be to increase agricultural power tariffs substantially, improve PLF and reduce T & D losses.

One of the options gaining favour pertains to private sector investment in power projects. A series of forward-looking policy initiatives, concessions and incentives have been announced to attract both domestic and foreign companies into forming private power enterprises. Your Company's products have a distinct advantage in terms of cost competitiveness and low gestation time over other prime movers in power plants upto 200 MW capacity. Based on the extensive experience gained internationally by the Wartsila Diesel Group in setting up a number of 100 MW plus power plants, your Company is actively engaged in the role of technically supporting prospective power-development companies.

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OF THE CHAIRMAN AT THE COMPANY'S GENERAL MEETING ON JUNE 29, 1993

Dual Fuel Engines

A leader in Gas-Diesel Engine technology, Wartsila Diesel International Ltd has met with success in commercially utilising natural gas to produce electric power efficiently. The gas-diesel power plants operating in USA and Finland have become model references on which the Company's collaborators are building the future success of high pressure dual fuel engines.

The Group's low pressure natural gas and biogas engines produced by one of the group companies, SACM Diesel, France are equally popular. Your Company has made a breakthrough in securing orders for power plants that will use biogas as fuel. These environment-friendly projects add a new dimension to the power scenario in India and unfold immense opportunities for development. Much-needed electrical energy is produced through efficient management of waste, whilst simultaneously preserving the ecological balance and the environment.

Collaborators

It is heartening that in the wake of global recession, your Company's collaborators have performed extremely well for the third year in succession. Sales during the year grew at an impressive rate of 33% to reach USD 1.0 billion, and the profits also followed a healthy growth. Central and South America, China and the Philippines emerged as prime markets for setting up a chain of 100 MW DG power

DIESEL

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the proceedings of the Annual General Meeting

stations. Attempts at private participation in power utilities in these countries popularised BOO concepts - a concept which should be tried in this country also. Innovative and conceptual packaging now features diesel engines in a number of 100-150 MW captive power plants, hitherto a domain of gas turbines. The Wartsila Diesel Group today has a global installed base of over 28000 MW, and the Group's factories are poised to deliver a record 2000 MW engines this year.

Exports

In a classic example of collaborative participation, your Company executed a prestigious order valued at Rs.19 crores by supplying seven engines aggregating 32 MW for a power plant to be delivered to the Philippines. The 90 MW power plant will be built on three floating barges and commissioned in the third quarter of this year.

Your Company will continue to seek opportunities for export of components, finished products and services with the support of the collaborators. Being a global player will help imbibe in the Company the real values relating to quality, efficiency and competitiveness.

Training & Development

The Technology School continued to host customer training courses at quarterly intervals, interspersed with task and component-specific programmes directed at enhancing the technical competence of your Company's employees. The development of an in-house faculty was a positive feature. The active involvement of specialists from the collaborators and from vendors in the faculty helped achieve a high level of training inputs.

Outlook & Prospects

The continuing recession and consequent drop in demand has severely affected your Company's order book position. Under these circumstances, the Company's performance for the year 1993 may not be very promising. The list of prospective projects is however encouraging and we are quite optimistic that your Company will secure its share of new business given its excellent product profile, dominant market position and strong organisational base. With the revival of the economy, your Directors feel confident that the performance for 1994 will be substantially better than in the current year.

Great Challenge in Regional Co-operation

B D Dhawan

Harnessing the Eastern Himalayan Rivers edited by B G Verghese and Ramaswamy Iyer; Konark, New Delhi, 1993; pp 286, Rs 300.

IT is a cardinal tenet of water planning that it be done on a basinwide basis. Otherwise, benefits from water resources could be well below optimal. When a river transcends national boundaries, optimal water planning can become problematic in the absence of greatly-needed co-operation in water resource development among the nation states of that river basin. The vast Ganga-Brahmaputra-Barak (GBB) basin encompasses territories of five nations: India, Bangladesh, Nepal, Bhutan and China (Tibet). B G Verghese and Ramaswamy Iyer, the editors of the book under review, make a fervent plea for co-operative exploitation of the huge water potential of the GBB region in order to alleviate mass poverty of this densely settled region of the world.

More often than not, nation states with common borders lack harmonious relations which inhibit bilateral parleys for co-operative use of water potential of an international river. The helping hand of some international body in such parleys should thus be greatly welcome. The Ford Foundation has done well to lend the needed financial support to the Centre for Policy Research (CPR), New Delhi, to undertake a study of the problems of exploitation of water resources of the GBB basin in collaboration with some research organisations of Nepal and Bangladesh.

The CPR research team comprised 17 members, mostly retired persons with diverse backgrounds and expertise. This multi-disciplinary approach was so essential for the kind of study at hand. Water is such a complex resource that many disciplines can prove handy in comprehending its complexities. This team, including a former foreign secretary to the government of India, prepared 22 papers on various aspects, which have been put together by the two team members, Verghese and Iyer, who are well versed in development issues relating to water resources, into an 18-chapter book that addresses really the lay reader. Only four papers are reproduced without any abridgement. However, for the more fastidious researcher of today a promise is held out in the lucid foreword by V A Pai Panandiker, the CPR director, that copies of all the original papers would be made available on demand.

The four-page 'Introduction' sets the tone of the study. "Certain aspects of the

GBB basin are compelling. Over 90 per cent of the stream flows in Bangladesh have their headwaters in India. Likewise, Nepal and Bhutan's colossal hydro power potential simply cannot be tapped without access to India's insatiable energy market. India's traditional and obvious line of transit from its heartland to the north-east lies through Bangladesh. Again, Nepal and north Bihar constitute a hydraulic continuum. *Without storage in Nepal, India cannot regulate the flood waters of some of the major Himalayan rivers. There is a web of interdependence which dictates co-operation*" (p 4, emphasis added). Readers (as well as reviewers) must bear in mind the following well-meant, concluding observations by the editors:

This study cannot be and is not intended to be the final word on this intricate and dynamic subject. It is a *first effort* that could be further developed. Its purpose is to stimulate interest and debate, suggest linkages and priorities and indicate possible trade-offs. The only firm conclusion that emerges is that the co-operative and optimised development of the Ganga-Brahmaputra-Meghna (GBM) basin *is not a zero sum game. It offers—more for all* (p 4, emphasis added).

While it is predominantly not a zero sum game because of abundance of water *vis-a-vis* land resource in this particular region, an element of zero sum game does crop up in two situations, one static and the other dynamic.¹ During non-monsoonal period of the year, more so during the summer months when river flows are naturally low and summertime demand for irrigation, drinking and other uses quite acute, more withdrawals of such waters by upper riparian users can reduce flows for the downstream users to the verge of creating a perceptible water shortage. This apprehension in Bangladesh is strong and is not ill-founded in facts. Not to mention the diversion of the Ganga through the Farraka barrage for maintaining navigability of the Hoogly river (from Calcutta to the sea), the tubewell explosion in the Indian Gangetic plains has curtailed the 'base' flows that originate mainly from natural groundwater discharges (subterraneously) into rivers. True, such reductions can be more than counterbalanced by flattening the river hydrographs through damming of the vast hillsides of the GBM basin (these account for over

one-fourth of basin area as per Table 1.4, p 10) with engineering and non-engineering storage works. This brings us to the other apprehension in a dynamic context of the future. If nation states of the basin take an overblown view of their *potential needs of water resources and the uses thereof*, water would no more appear as a plentiful resource, with the result that the usual zero sum game of water-short basins can ensue even in an otherwise water abundant basin. Whether professional assistance in assessing such potential needs can help in sorting out contentious matters among the basin nations depends on the extent the experts can transcend their national allegiances and play true to their professions.

The GBM basin has truly continental diversity in physical environment, climatic features, demographic characteristics, ethnic contrasts between hill people of the southern boundary and those of the northern Himalayas, level of socio-economic development, etc. Broadly, four regions can be distinguished: the Himalayan zone, the flat plains, the hilly areas of the north-east and the south-west hilly tracts along the fringe states of MP, Rajasthan, Delhi and Haryana. The areal extent and climate of these regions are profiled in chapter 1. The flood-proneness of the Bangladesh plains is underlined, without indicating the proportion of geographical area under perpetual and occasional threat of submergence from flood waters. Likewise, the rich alluvial deposits of the plains region is underscored but without underlining that this signifies bounty of ground water resource (one-fifth of alluvial deposits by volume is groundwater).² High population density, worsening land-man ratio over time, and mass poverty are highlighted, often using countrywide data as the basin specific estimates are still lacking. Without data for such portions of each country as lie strictly in the domain of the GBM basin, quick comparisons based on countrywide data, especially that of India, can be somewhat misleading about the extent of disparateness among the sub-country portions of the basin.³ To illustrate, let us take the following observations on income disparity:

The per capita income in none of the constituents of the GBM basin in India is higher than the average for the country, while in some it is significantly lower. It is also found (World Bank Report, 1990) that the comparable estimates of per capita income in Bangladesh (\$ 170), Bhutan (\$ 180) and Nepal (\$ 160) were lower than that for India (\$ 340).

Unless a reader bears in mind the caveat added at the beginning of this quote he

could form the loose impression of development level in the Indian portion of the basin being almost twice that of the rest of the basin. For all we know, the disparity in development levels within the basin could be much less than that implied by the above income figures.

Agriculture is the principal economic activity in the basin. In the absence of irrigation, the east Gangetic plains of Bangladesh, West Bengal, Bihar and east Uttar Pradesh have had, especially during pre-colonial days, a natural comparative advantage over the west Gangetic plains (of west UP and Haryana), mainly because of higher (and less uncertain) rainfall and richer soils with better moisture retentive capacity, the two vital determinants of natural land productivity under rainfed farming. Rapid development of irrigation facilities in the west Gangetic plains has radically altered this comparative picture of land productivity. This has in turn led to demands for accelerating irrigation development in the east Gangetic plains also—the demand dates back to the colonial days and received further impetus after the end of the colonial era in 1947 (possibly 1971 in the case of Bangladesh after its separation from West Pakistan). Unfortunately, economists in India, having been slow in properly appreciating the productivity role of rabi/summer season irrigation, have been often lukewarm to this demand for irrigation development emanating from high rainfall regions. Having been too much preoccupied with the protective character of Indian irrigation, some of them have loudly wondered whether returns to irrigation investments in high and assured rainfall regions would be worthwhile—this argument came handy to explain away why the British too concentrated mainly on developing public irrigation works in low rainfall tracts of undivided India. Remnants of this kind of lukewarmness are found in chapter 3 which explores the myriad dimensions of the agricultural challenge of boosting land productivity in the eastern plains of the basin. Misgivings about the role of irrigation and chemical fertilizers, expressed covertly in this chapter, need to be straightened out.⁴

Chapter 4, entitled 'Water Resources Management and Irrigation', draws heavily on the numerous works of M C Chaturvedi, a former IIT professor and a member of the CPR team. The high sediment load and the discharge intensity of the GBM system in relation to the size of the drainage basin are underlined. Neglect of drainage development as part of irrigation development is explained away from the angle of minimising the cost of irrigation. The classified status of hydrological data about the basin by government of India is rightly regretted. Greater development

of barrages on the Ganges are commended in the section on technological options, so as to prevent some flood waters going waste to the sea.⁵ Limited ground water mining is favoured, as well as storage works in the hills subject to environmental safeguards. Conjunctive use of ground water and surface water is commended strongly, a point that is reiterated in chapter 6 which specifically deals with the subject of ground water. Likewise, watershed management is highly commended as it prevents impairment of storage capacities. Finally, propagation of fertility control for the region is commended as an *additional* plank for poverty eradication—this point is mentioned with priority in the concluding chapter 18.

The Himalayan glaciers are taken up in chapter 5. According to rough estimates, the snow volume of 3,000 glaciers spread over 8,500 square km of area of the Himalayas amounts to 5,498 cubic km, which is equivalent to storage capacity of 687 Bhakra (Gobindsagar) reservoirs.⁶ But artificial snow melt is not favoured by the author (presumably he is C P Vohra, former director-general, Geological Survey of India and chairman PAMC, Glaciology, Department of Science and Technology).

Ground water resource, its characteristics and exploitability under varied conditions of the GBM basin are delineated (a bit too technically) in chapter 6. Though there is a section titled 'Trends in Bangladesh', the chapter is replete with data/information pertaining to (i) India as a whole and (ii) Indian portion of the GBM basin, drawn from several official documents such as the Eighth Five-Year Plan, the RBI committee on eastern India (known as the S R Sen committee), Indian National Water Policy and the Ground Water Estimates Committee (1984). The text lacks in coverage, coherence, and critical appreciation of cited information.⁷ Lack of basin-wide coverage has already been mentioned earlier. Lack of critical appreciation may be illustrated by the contrariness in the picture of stage of exploitation in ground water in UP state, for which one set of data (volumetric) cited reveals gross underutilisation (64 per cent, Table 6.1, p 77) and the other set (area statistics) indicating overutilisation (16 per cent, Table 6.2, p 79). In this context, the following reassurance does not take us far:

In parts of the GBMB, indications of over-exploitation have emerged. The latest estimates for Uttar Pradesh would *theoretically imply excess use, or mining* if the projected targets for the Eighth Plan are achieved. But conditions on the ground do not appear to be alarming. In fact, *a large part of the potential remains untapped*. Resource assessment exercises so far have

ignored the component of rejected (sic) recharge while the prospects of induced recharge have not found favour in development planning (p 70, emphasis added).

The ticklish problem of flood control and drainage is elaborated in chapter 7. Out of 34 million ha of flood-prone area of India nearly two-thirds (23 mha) lies in the GBM basin. This is suggestive of one-fifth of the Indian portion of the basin to be flood-prone. But this susceptibility to floods is much higher in Bangladesh—in 1988, 60 per cent of that country was affected by floods (p 88).⁸ And in the mountainous Nepal and Bhutan flood problem is of a different genre, i.e. more of erosion and bursting of natural dams formed as a result of rockfalls and landslides.

Flood control is inherently a tough task that becomes intractable when floods and flood control measures are viewed differently by people and their governments.⁹ As there is a plus side to the floods (in the shape renewal of soil vigour and soil moisture), farmers in subsistence stage of farming do not look upon them as unfavourably as do urban people and farmers practising intensive farming with lot of investments in purchased inputs of biochemical and mechanical origin. The chapter brings out how Indian perceptions on flood control measures happen to be at variance with those of Bangladesh. River embankment as a measure of flood control is rightly recommended for a careful review.

The focus of chapter 8 is on energy issues of the basin. Predominant use of non-commercial fuels is highlighted in the socio-economic milieu of the basin states. Environment friendly nature of hydel power is emphasised, and scope for mitigating its negative effects (land and forest submergence) pointed out. Huge hydro electric potential of the basin is underlined. A brief account of three Indo-Nepalese schemes (Karnali project, Pancheswar project and Kosi High Dam) is provided. Likewise, promising Indian hydel schemes are enumerated.

Various aspects of forests and environment are discussed in chapter 9. Much of the GBB basin was in large part densely forested even in recent historical times. Anthropogenic activities have left indelible marks and scars on the environment and landscape. The forest area encroached in the basin states of India during 1981-82 alone was half a million ha. The position in the other basin countries is somewhat similar though exact statistics are not available. The forest area lost due to dam submergence during the 28-year period 1952-80 was also of the order of 0.5 mha. The development of roads in the Himalayan belt has caused severe erosion affecting hill slope stability on the one hand

and causing heavy landslides, injury to forest and other vegetative cover on the other. Overgrazing and deliberate lighting of fires to induce tender growth of grass for better grazing by the farmers/graziers are *inter alia* major causes of degradation of grasslands and pastures in the Himalayas, resulting in added silt load in the rivers which in turn hastens silting up of reservoirs and river beds.

The politics of riparian relations are taken up in chapter 11 which follows chapter 10 entitled 'Prospects for Inland Water Transport'. In chapter 12, K Rangachari and Ramaswamy Iyer offer their own assessment of fruitlessness in Indo-Bangla talks on the Ganga waters issue so far. The Indo-Bhutan and Indo-Nepal dialogues on co-operative exploitation of Himalayan waters are delineated in chapter 13. We have an interesting but short interlude on the big dam debate in India in chapter 14. The vicissitudes of the persons displaced by development projects like Tehri dam, Karnali project, Koel Karo and Narmada dams are taken up in chapter 15. The seismic hazards of the Himalayas are outlined in chapter 16. In chapter 17 L S Srivastava, from the department of earthquake sciences in the University of Roorkee, gives a technical exposition of how dam height and seismicity are related. His conclusions deserve attention as these run counter to lay thinking on this matter.¹⁰

Even though various approaches and methodologies for determination of earthquake hazards at a particular dam site have in-built uncertainties, a conservative assessment of seismic evaluation parameters can be made to ensure overall stability and performance of high dams with adequate safety margins. Behaviour of dams subjected to SGM (strong ground motion) indicates that with a reduction of height and consequent shortening of the natural period of vibration, such structures attract higher seismic forces. Small dams thus undergo greater stress often resulting in damage as compared to high dams of a similar type ... Earthquake resistant design and construction of high dams can now be successfully carried out (p 262).

Finally, an overall view of the problem of regional co-operation for optimal basin development is offered in the concluding chapter 18 which constitutes the core of the study. The central message here is as follows:

If the nations that share the GBM basin are to roll back poverty, ignorance and disease and ensure a better quality of life to a large part of humankind, they cannot turn their backs on the wealth they have only to reach out to grasp. The differences that divide them and the quantitative values involved in their water disputes are relatively small compared to the far

greater benefits that each of them could realise through co-operation. Numerous tradeoffs can be considered in order to even out specific gains and losses. In the end none need be a loser. Everybody can gain, and South Asia will emerge a stronger, better and happier region in which to live.

Similar studies from Bangladesh and Nepal side are expected soon. Their say on the matter would bring out both areas of concurrence and conflict. In order to enlarge the sphere of concurrence eminent emigre citizens from this basin could be galvanised to press on their own people/government to do the needful in regional co-operation.

Notes

- 1 That a zero sum game does exist in the basin in summer season is recognised albeit tacitly later in the book.
- 2 In chapter 4 it is mentioned that 41 per cent of the utilisable water resources of the Ganga basin are from ground water when exploited on 'safe yield' principle (p 51).
- 3 Throughout the book a reader has to be very wary of numbers (as well as statements of facts) about India as a whole as distinguished from the Indian portion of the GBB basin.
- 4 Let me give an instance in this regard. "...available empirical evidence shows that the correlation between the increase in irrigation and fertiliser consumption on the one hand and the growth of crop production in value terms on the other is weak in the case of wet rice agriculture in Assam, Bengal and Bihar".
- 5 The wasteful flood runoff in UP is mentioned at 40 million acre-feet. How much of it would be saved through investments in barrages is not mentioned. (In fact, the citation in this regard, namely, Srivastava et al 1989, does not figure in the list of references.)
- 6 Sixty per cent of the flow of the Sutlej and other rivers of western Himalaya and, to a somewhat lower extent of the eastern Himalaya, is from snow melt (p 69).
- 7 Ground water resource is the crucial component of water resources of the basin. Unfortunately, it has not been well articulated in the study. Unless non-official writings on this resource, especially those emanating from the academic portals of Bangladesh and India, are carefully perused, we would not get to the ground reality that is absent from official writings on the subject. It need not be taken softly simply because there is no compulsion for inter-country co-operation in this area.
- 8 In 1988, the flood in the Brahmaputra was of the order of 'one-in-100 year' probability, that in the Ganga (as well as Meghna) of 'one-in-30 year' probability (p 87).
- 9 The Centre for Science and Environment, New Delhi, in its recent report on Himalayan floods does not sound very sanguine about containing the flood menace and suggests we better learn to live with floods. See this author's 'Coping with Floods in the Himalayan Rivers' in this journal (May 1, 1993).
- 10 Similar views were forcefully expressed at the National Symposium on Large and Small Dams in New Delhi in December 1991. For more details about this symposium, see this author's 'The Big Dam Debate' in *Facts for You*, Vol 13, No 8, February 1992.

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IN THE NAME OF THE URBAN POOR

Access to Basic Amenities

AMITABH KUNDU

This book analyses the access of the urban poor to five basic amenities--housing, water supply, sanitation, health care and the public distribution system. Professor Kundu provides an overview of the existing organisational structure responsible for the provision of these amenities and examines its sensitivity to the needs and affordability of the poor. He concludes that the system has not been designed to meet the minimum needs of the poor and is vulnerable to manipulation by vested interests. Examining in detail the specific programmes and schemes launched by the government, Professor Kundu notes that the stipulations built into them to enable access by the poor are inadequate and superficial.

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Economics as Behavioural Science

T Krishna Kumar

Vijay Padaki

Economic Behaviour and Institutions by Thrainn Eggertsson; Cambridge University Press, Cambridge, 1990; pp xv+385, £ 35.00 hardbound, £ 12.95 paperback.

"WITHOUT a theory, they had nothing to pass on except a mass of descriptive material, waiting for a theory." Quoting Ronald Coase, the author observes at the start of the book that the work of early American 'institutionalists' led to nothing. Upon this premise a distinction is attempted between the new institutional economics of earlier vintage and the emerging neo-institutional economics. The textbook construction given to the book permits a good review of the evolution of economic theory and the societal circumstances that led to the appearance of new institutional economics as a more inclusive body of thought. The methodicity in this historical review reveals a determined effort to find appropriate material to fill the gaps in the new institutional framework. The effort is laudable. The goal, however, appears a long way off.

Neo-classical economic theory is based on a rational choice model under a capitalist system. It assumes that individual economic agents maximise an objective function, subject to the constraints imposed by a perfectly competitive system with perfect information and zero transaction costs. This theory was criticised by institutional economists such as Thorstein Veblen and John R Commons for its heavy reliance on generalisations and the quantification of pains and pleasures, and for its relative neglect of institutional constraints that are specific to each institution or each economic agent. The book under review traces one strand of a newly emerging institutional economics which the author labels as *neo-institutional*. The *new* institutional economics of earlier vintage is defined by the author as that branch of institutional economics that rejects the rational choice model, and replaces it by a model of bounded rationality or satisfaction, such as that propounded by Herbert Simon, looking at economic behaviours from both the economic and psychological considerations. On the other hand, neo-institutional economics is seen as retaining the rational choice assumption, but replacing the idealistic assumption of perfectly competitive environment with more realistic institutional constraints with property rights and positive transaction costs.

The distinctive position assumed for the 'neo' over the 'new' appears illusory. Structurally both approaches deal with optimisation under constraints imposed by the human, physical and natural environments, and by the information acquisition process. In the new institutional analysis there is some attention paid to human psychological aspects and the state of information, both having a bearing on the objective function and the constraints. These aspects are ignored in neo-institutional economics. Thus the choice of one approach over the other is perhaps based on convenience and the author's preference, rather than on the utility of the approach or superiority of one approach over the other, contrary to the claims made by De Alessi. Most of the literature covered in the book centres around Ronald Coase's concept that a firm is a web or nexus of contracts, and that the transaction costs depend on the nature of property rights and their enforcement. Behavioural attributes such as initiative, commitment, motivation, etc, have an important place in the success of business organisations, as has been demonstrated in recent years in the field of comparative management, e.g. by Peters and Waterman, and by Michael Porter. Treating the firm as a web of contracts, ignoring the behavioural attributes, cannot therefore be of much use for analysis of business decisions and for business policy.

Through the application of the new theory the author explains how to deal with such problems as: use of common property resources; advantages and disadvantages of privatisation; how different forms of business organisation emerge and co-exist; how stretching and partitioning of property rights create organisational hierarchy and efficiency through delegation and the associated contractual relations between the principal and the agent; the emergence and prevalence of imperfect competition through quality variation; the relation between the property rights, state regulation and economic performance; the relationship between ownership and control of property and shirking and motivation, etc. Thus the book is of immense value to a reader who

is interested in neo-institutional economics as an aid to study the problems of industrial organisation, business policy and public policy.

However, the book suffers from some shortcomings if it is to serve as a textbook: it does not identify clearly the profile of a typical reader. Is it a business school economist, or an economist of a school of arts and sciences, or an economic historian or a student of law and economics, or a political economist? By trying to cater to the interests of all such readers it falls short of being a full-fledged textbook for any one of them. Perhaps it can serve as a good 'suggested reading' for all of them: a book written by an economist for economists highlighting the relevance of transaction cost economics by demonstrating its usefulness in various sub-fields of economics. From this viewpoint the efforts made by the author are laudable.

In order that the emerging economic theory be relevant for practical problems facing the government, business and industry it is quite necessary that there be a judicious mix of what the author treats as two distinct strands—the new institutional economics and the neo-institutional economics. The point made by De Alessi that neo-institutional economics generates a more powerful set of testable implications than does the new institutional economics is untenable. There have been rapid developments in the field of what is beginning to be called an eco-behavioural science. Even 20 years ago, there was a recognisable body of thought in an ecological psychology that dealt with the behaviour of people in ecological settings. A recent book, *Behavior Settings* by Phil Schoggen (which is a revision and extension of Roger Barker's *Ecological Psychology*) demonstrates the potential of this line of enquiry in economic theory. A provocative article by Meyer on research programmes of economics in the *British Journal of Social Psychology*, 1982, also stresses the relevance of psychological economics. *Journal of Economic Psychology* and *Journal of Economic Behaviour and Organisation* report some recent developments in this area.

To fully appreciate the institutional perspective to economic behaviour, economists would benefit from a study of three lines of thought that developed rapidly, in parallel, in the post-war years:

- Field theory as a behavioural and social science (Kurt Lewin, Morton Deutsch, and others).
- The framework of socio-technical systems (The Tavistock group, Fred Emery, Eric Trist, A K Rice, and others).
- The perspective of general systems

theory—the genuinely transdisciplinary effort at theory building, with important extensions into the social and behavioural sciences provided by N Georgescu Roegen, Russell Ackoff, William Buckley, K E Boulding, J G Miller and D Katz and R L Kahn, among others.

It will be seen that these three streams—and their several constituent rivulets—had many ideas in common, the essential likenesses far outweighing the apparent dissimilarities in terminology. It might even be argued that truly behavioural theories of the firm (Cyert and March, as cited by the author, or even Herbert Simon later) might not have been possible without a systems perspective: the fields within fields analysis suggested by Sutherland.

The key task in institutional economics—new and neo alike—appears to be that of defining system boundaries of an institution. At what 'system level' is it appropriate to apply the term institution? Is the firm an institution? Or is it perhaps a unit/sub-system in a larger system that can be called an institution? What essential characteristics must a system have for the term institution to be justifiably applied?

The origins of any institutionalisation are: (a) the experience of a set of behaviours as purposeful, and (b) the need to protect and promote those purposeful behaviours.

The natural consequence of such motivated behaviour is the creation of an organisational form that permits, after all, an organic survival and growth of these behaviours in the given environment. Soon, however, the organisation itself requires protection and promotion, along with other similar organisations that have arisen, created by various other groups of people, with similar purposeful ends in view. At this stage, a more abstract organisational form emerges that attempts to simultaneously (a) provide generalised sustenance to the various constituent organisations, and (b) permit variations in pursuits in the individual organisations within a growing body of commonly accepted norms and conventions. In this way, both conformity and innovation are given social approval in the interests of the long-term survival and growth of the organisations concerned.

There seems to be a natural, logical basis for the sequence of developments towards a social institution:

from New Behaviours found useful
through Organisations created
to The Institutional legitimacy

The sequence represents an evolutionary process that matches the needs of the people concerned with the realities of a changing environment. The emerging in-

stitution is thus both need-based and context-based. One common (and significant) role a social institution plays is in defining norms in a given pursuit and helping to ensure adherence to them; e.g., in devising procedures for accreditation in a professional sphere, or in regulating employment or just compensation.

The emergence of a stable, purposeful, social institution also amounts to the appearance of a structural facility in the social system. The institutional frame facilitates interactive processes among the constituent organisations, as well as between these organisations and other institutions in the social system. Some of the important interactive processes facilitated by the institutional frame would be:

- Information exchange
- Optimisation of gains (in longer time perspective)
- Conflict resolution
- Joint lobbying, joint action
- Visualising and articulating strategy, planning
- Public awareness, education
- Promotion.

In more recent times, the co-evolutionary nature of organisational forms within an institutional system has been captured effectively by the concept of social ecology. For instance, the conclusion by scientists and technologists in ASTRA (at Indian Institute of Science, Bangalore) that the design of the traditional bullock-cart was optimal revealed its socio-ecological basis: the logical connections between terrain and wheel, wheel and wood, wood and forest resource, forest resource and occupational patterns, occupational pattern and optimal cart-load, and so on and so forth, extended to the interfaces with other occupations, such as the village smithy, the carpenter, the miller and the cobbler. In contrast, there were other studies that sought to 'modernise' the cart in

the sense of increasing its carrying capacity, but ignoring the other linkages.

Viewed in this light, it seems possible to explain the frequently encountered difficulty in 'charting' institutional fields in traditional societal systems exclusively with contemporary yardsticks and parameters. For in reality these systems operate in dual institutional fields, with parallel functional procedures: the formal working capital system from commercial banks running parallel with the 'peri' system with its kinship-community base, the computer-based MIS running parallel with the 'kartha' and 'partha' tradition, and so on. Analytical methods such as maximisation of an objective function subject to constraints help in charting the limited, formal, institutional system. An approximation of the totality seems to call for a more comprehensive socio-anthropological methodology.

Thus the real tasks ahead for neo-institutional economics appear to be two: (1) to get on with the empirical verification of premises so elegantly and painstakingly developed over the years; and (2) to seek avenues for the empirical verification outside the limited (and limiting) pathways in economics literature.

Interestingly, the book itself suggests that the comprehension of economic institutions and institutional behaviours require widening of perspective by economists. That this has remained largely a gut feeling rather than an empirically substantiated position is perhaps due to the inadequate appreciation of economics, after all, as an eco-behavioural science. Without adequate progress on these crucial tasks, institutional economics may well be reviewed another 20 years later as "a mass of logically connected material in new clothes waiting for empirical verifiability".

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Demand Side Management in Power Planning

An Exercise for HT Industries in Maharashtra

Rangan Banerjee

Jyoti K Parikh

India needs to seriously consider demand side management (DSM) options to meet the growing electricity requirements. In this paper a DSM plan is chalked out for the high tension (HT) industries in Maharashtra. Ten different DSM options have been considered. Technology characteristics have been obtained from manufacturers and end-use analysis is based on the IGIDR-HT survey. Market penetration of DSM options has been modelled using a diffusion curve. Programme costs have been included for each DSM option.

I

Introduction

TO meet increasing demand for power the typical response is supply sided 'Build new power plants' even though there is much that can be done to reduce energy consumption at the consumer's end. 'Energy saved is energy generated' goes the cliché. However, energy saved at the consumer's end is several times more effective than creating extra generating capacity when one considers:

- Transmission and distribution losses avoided.
- Extra capacity and hence capital needed to generate and transmit that energy.
- Reduced environmental impacts. Reduced global warming. Reduced local pollution associated health impacts.
- Fuel saved and hence no additional requirements for coal mining and railway linkages.
- Gestation period reduced from five years to one-two years.
- Saved land, manpower and water requirements necessary for extra generation as
- Demand side management (DSM) takes place in the consumer's territory.

Some may argue that the last three points are important only when the savings are substantial. However, these savings could be as large as 15000 MW on an all-India basis for a 20-year perspective. These can be significant percentage of requirements of additional power plants. Increased energy efficiency is a topic which has been discussed by planners without specifics for a long time. Only recently, in the Eighth Plan, it has been recognised that energy conservation and management requires financial allocation. While energy supply planning is done with a reasonable degree of articulation, expected contributions from DSM are generally indicated in percentage terms merely as a possibility without specific annual targets. This is because no satisfactory methodology for even formulating a DSM plan exists.

The Eighth Plan[1] is the first plan to provide a capital outlay for energy effi-

ciency measures. An outlay of Rs 1,000 crore out of a total outlay of Rs 1,15,480 crore for the energy sector (Rs 79,589 crore for the power sector) has been provided to achieve targeted energy savings of 5,000 MW in the electricity sector and six million tonnes in the petroleum sector. A target of 2,250 MW demand saving in the industrial, commercial, agricultural and domestic sectors has been set for the Eighth Plan. The National Energy Efficiency Programme during the eighth plan would include components of policy package, financial arrangements including creation of a revolving fund, technical assistance, technology development, selective legislation and developing institutional capabilities. However, the targets and the capital outlay have been fixed arbitrarily. This paper provides a methodology as well as provides specific targets for individual measures for electricity and power savings by different DSM options. Project costs for these energy and demand savings have been computed. This paper attempts to evolve a rational basis for deciding on targets for DSM.

Reddy et al [2,3] proposed DEFENDUS a development-focused end-use-oriented electricity scenario for Karnataka. It considers a few DSM options and does not consider diffusion curve for technology, peak coincidence factor or the programme costs for these options. However, they examine other supply options, which the present paper does not as it is supposed to do a rigorous analysis of more than 10 DSM options with perhaps the first comprehensive DSM plan for industries in India. A critique of DEFENDUS model by J Parikh[4] pointed out that there is a need to take a larger view of opportunities that exist at the consumers end and implications of these for different agents involved, viz. customer's, utilities, state or central government agencies, private sector parties and look into societal benefits. Nadel et al[5] have examined the opportunities and barriers to improved end-use efficiency in India. In the present study, we concentrate on 10 different DSM options for the HT industry. We use the results of the extensive IGIDR-

HT survey[6] to assess the potential market for each DSM option. In our analysis, we delineate the energy savings into peak, off-peak and partial peak savings depending on the time period (hour at which saving occurs). To obtain demand savings we consider a peak coincidence factor. A diffusion curve is used to model the diffusion of DSM technologies into the market. The analysis also includes costs of operating and monitoring DSM programmes.

The present paper deals with the Eighth Five-Year Plan targets for DSM in Maharashtra. This paper presents some of the preliminary findings of the EMCAT project on DSM in HT industries in Maharashtra.

II

Methodology

A list of 10 DSM options for the high tension industries of Maharashtra has been drawn up. For each technology the following input data have been used:

(a) *Technology characteristics:* The technology characteristics include capital, installation, O and M cost, useful lifetime, current market share and peak co-incidence factors. The technology characteristics have been taken from manufacturers catalogues.

(b) *Market segment profiles:* The market size and growth rates are required as input data. The market size has been obtained from the IGIDR-HT survey[6] of end-use analysis in HT Industries. It is assumed that the HT industries electricity growth rate is 7 per cent in the first year and gradually reduces to 5 per cent at the end of a 20-year period.

(c) *Price of electricity:* The current charges of MSEB for the industrial sector of Rs 2 per unit and Rs 100/kw of demand have been used. A 10 per cent escalation in nominal rates every year is assumed. This is used to determine pay back periods.

WHAT IS A DSM PROGRAMME?

DSM involves intervention by the utility on the customer side of the meter to achieve customer load modifications. An explanation of different terms associated with DSM

is provided in the glossary. DSM option needs to be launched with a suitable financial package catering to a particular option. DSM option with its financial incentives is called DSM programme. There is a difference in the availability of capital (and the interest rates) for the utility and the customer. This is reflected in the difference in the discount rates. The utility discount rate of about 14 per cent is significantly lower than the customer discount rate of about 25 per cent. For the industrial customer, DSM/energy conservation schemes compete with investment in augmenting production for their scarce capital resources. For a successful programme, financial incentives may be necessary. They could involve: Initial capital subsidies; low interest credit schemes; accelerated depreciation; tax rebates; and so on.

However, different types of financial incentives are not discussed here. It will be assumed that, each of them can be expressed in terms of reduction in initial capital requirements, i.e., initial capital subsidy. Institutional mechanisms are also not discussed here. Financial incentives can be channelised through energy service companies, state electricity boards, financial institutions or energy development and management agencies at state level and at centre. For each DSM option, an initial incentive has been proposed. It is proposed that a portion of the initial capital cost is to be provided on a cost-sharing basis so that the pay back period is less than two years. It is difficult to determine precisely the extent of cost-sharing necessary. The values proposed in this paper are illustrative and could be modified, if necessary. The values used here have been selected in a manner to make the DSM option attractive to the customer.

In addition to cost sharing, programme costs for publicity, generating awareness, conducting feasibility studies and monitoring the programme have been considered. The total programme cost (PC) can be expressed as

$$PC = I + AT + \alpha CN \quad (1)$$

where I is the initial programme set-up cost, A is the annual recurring programme cost (an escalation of 8 per cent per annum is considered to account for inflation) and T is the duration of the programme in number of years. α is the proportion of the capital cost C to be shared by the implementing agency and N is the total number of adoptions. Table 1 shows a break-up of the programme costs for the different DSM programmes considered. Admittedly presently one cannot estimate precisely costs for running DSM programmes which require diverse activities such as publicity, training, equipment and monitoring. Therefore, we have created several cost categories. We have assigned different DSM options to different cost categories based on our discussion with industries. The initial programme set-up cost will involve the costs of setting up a cell for each programme

and for preparing pamphlets and publicity material. This has been taken as Rs 20 lakh. An additional cost will be involved for time of day tariffs^b as the billing for the HT industries adopting the programme will be based on the time of day meter readings. The initial programme set-up cost for the time of day tariffs will be higher than the other programmes and has been taken as Rs 30 lakh. The three efficient lighting options (HPSV, electronic ballasts and compact fluorescents) have been clubbed together as a single cell could manage the efficient lighting programmes. For energy efficient motors, electric arc furnaces and efficient lighting we consider the cost of a one-person department (full time) and overheads and budget Rs 3 lakh annually for the programme recurring cost. For efficient lighting the programme fixed costs are to be shared equally between the three DSM lighting programmes. For good housekeeping training seminars will have to be conducted and publicity posters, pamphlets have to be given to the user industries. For the waste heat-driven vapour absorption refrigeration systems (VARS) a number of feasibility studies will have to be carried out. In both these cases we have taken the annual programme cost to be twice that of the above programmes, i.e., Rs 6 lakh. For variable speed drives the emphasis has to be on application engineering—i.e., it is necessary to identify potential candidates for variable speed drive applications in industry and work out the pay back periods. Hence the budget must provide for site visits by technical experts and feasibility studies. For the VSD programme we have considered an annual recurring programme cost of Rs 9 lakh. For the implementation of time of day tariffs an advisory cell will have to be established to provide technical

assistance to participating industries. The specific measures for load shifting suitable for different participating industries will be identified by the time of day (TOD) expert cell. The TOD annual recurring cost has also been taken as Rs 9 lakh.

For industrial cogeneration a questionnaire is to be sent to the industries. This will be followed up by a feasibility study for potential industries. An annual budget of Rs 10 lakh has been provided for the feasibility studies and Rs 5 lakh for a two-person cogeneration cell. The annual recurring programme cost for cogeneration has been taken as Rs 15 lakh.

As shown in Figure 1, for each DSM programme the market can be either the replacement market or the total market. The replacement market includes new units and the existing old units which are due for replacement. In the total market, the entire market including new and existing units is the potential market. Figure 1 illustrates the difference between the replacement and the total markets.

In our analysis for the energy efficient motors programme we consider only replacement market because of the general reluctance in changing already working motors for small efficiency gains. For electronic ballasts also we consider only the replacement market. For all the other DSM programmes we consider the total market. After fixing the potential market size we have to determine the long range market share of the DSM options.

There will be some who will not participate at any time because of a number of reasons. Therefore, we define an unwilling percentage, i.e., the proportion of the market which will not adopt the programme (even in the long run, viz., 20-year period). For the DSM options considered we have taken an

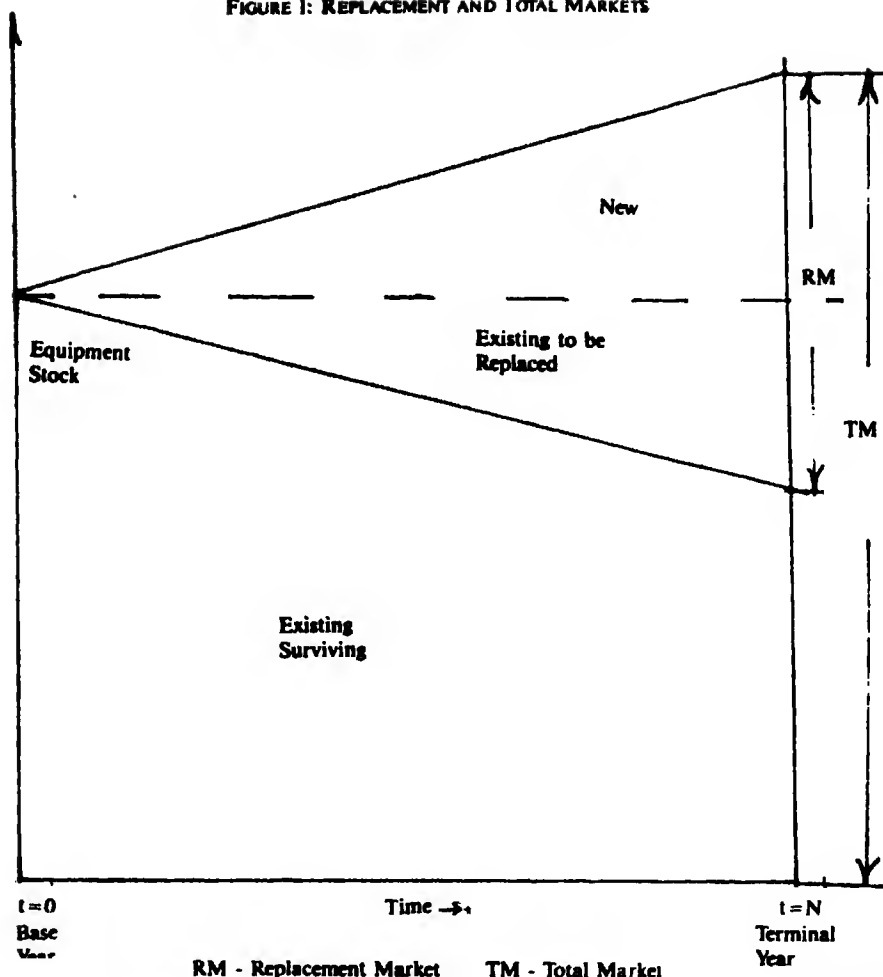
TABLE 1: PROGRAMME COSTS FOR DIFFERENT DSM PROGRAMMES

DSM Option	Initial Programme Set up Cost (Rs Lakh) I	Annual Recurring Programme Cost (Rs Lakh) A	Extent of Capital Cost Sharing
Energy efficient motors	20	3	50 per cent of incremental cost
Variable speed drives	20	9	25 per cent of capital and installation cost
Good housekeeping	20	6	50 per cent of initial cost up to Rs 1 lakh
Waste heat VARS	20	6	30 per cent of initial capital cost
Electric arc furnaces	20	3	25 per cent of initial capital cost
Time of day tariffs	30	9	Rs 90,000 industry cost of meter + 50 per cent of cost of demand controller
Efficient lighting	20	3	HPSV—25 per cent of initial cost (ballast) Electronic ballast—50 per cent of capital cost CFL—50 per cent of initial cost of ballast
Industrial cogeneration	20	15	25 per cent of initial capital cost.

Notes: a Programme costs = $I + AT + \alpha CN$... (1)

b As it is difficult to appreciate a full range of cost elements, we have assigned different DSM measures to different cost categories in incremental values of Rs 300,000 per year. This is a flat charge for servicing the programme over and above the initial set up cost for each programme and the capital cost of each measure in terms of equipment. $(1 - \alpha)CN$ will be borne by the consumers.

FIGURE 1: REPLACEMENT AND TOTAL MARKETS



unwilling percentage ranging from 10-40 per cent depending on the nature of the DSM programme. The rate at which a DSM option attains its long-run market share is a function of the pace at which information and subsequent actions about it diffuse in the market place. A modified version of the Lawrence-Lawton diffusion curve[7] has been used in the present analysis. Figure 2 shows the diffusion curve for DSM options. It is assumed that the long range market share is attained at the end-of the 20 year period. For the Eighth Five-Year plan at the end of the plan period the percentage adopting ranges between 20 and 30 per cent of the long-run market share depending on the DSM programme. The DSM options have been analysed with respect to the following criteria:

(a) **Pay back period:** The pay back period for the industrial customer has been computed for each DSM option. The pay back period is calculated in the absence of a programme and with the DSM programme. In all the DSM programmes the cost sharing has been done with the objective of keeping the pay back period less than two years.

(b) **Cost of saved demand (utility):** The programme cost in each year is discounted at the utility discount rate (14 per cent) and summed up to obtain the total programme cost. The demand savings in the terminal

year of the plan (1997) are computed based on the number of net adoptions. The effect of transmission and distribution losses is considered to arrive at the actual savings in the system demand. The programme cost is divided by the system demand reduction to obtain the cost of saved demand (utility).

(c) **Cost of saved demand (total resource):** In this case the gross participants costs are considered. To this is added the programme fixed cost. Yearly costs are discounted at a discount rate of 14 per cent. The total cost of the DSM option is divided by the demand savings to obtain the cost of saved demand (total resource).

(d) **Cost of saved energy (CSE):** The cost of saved energy is the levelised average cost of the DSM option per kWh saved. This is computed as follows:

$$\text{CSE (Rs/kWh)} = \frac{\text{DSM option cost} \times \text{Capital recovery factor}}{\text{Annual Energy savings (kWh)}} \quad (2)$$

If an annual maintenance cost is involved it is added in the numerator to the annualised DSM option cost.

The comprehensive market planning and analysis system (COMPASS) model developed by Synergic Resources Corporation (SRC) has been used for the analysis. Fig-

ure 3 shows an overview of COMPASS. The pay back period for the customer participating the programme has been worked out. Yearly targets of the number of physical units (bulbs, motors, etc), the demand and energy savings have been obtained. The break-up of new and existing equipment has also been shown in each case.

III

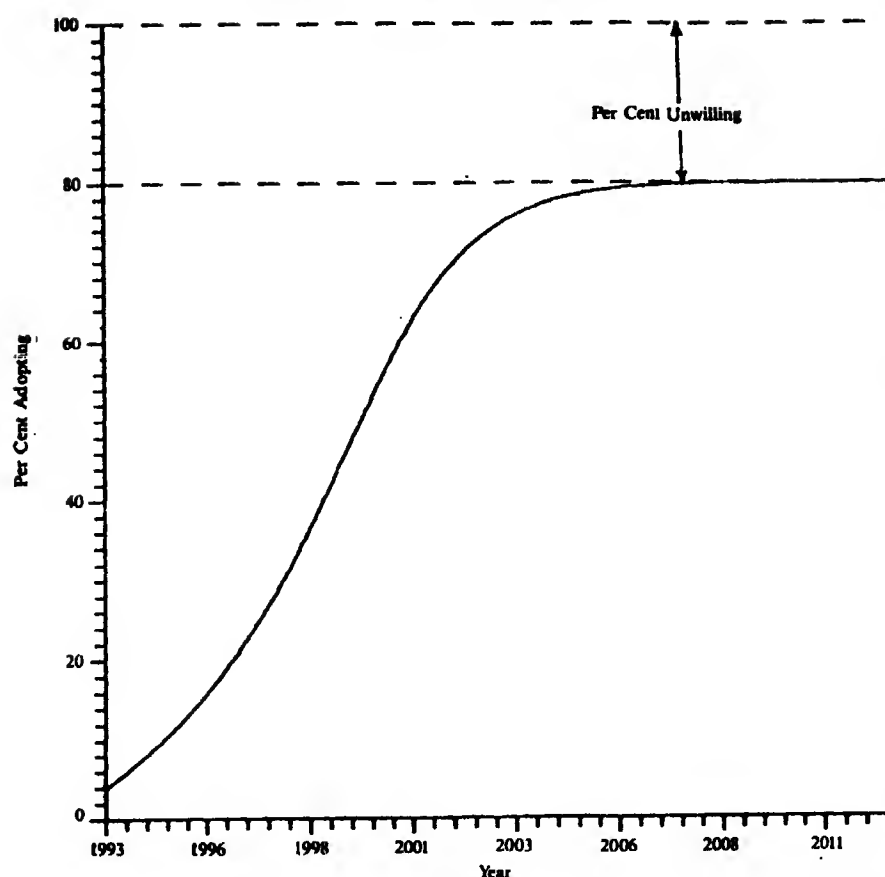
DSM Programmes for the Eighth Plan

The following DSM programmes have been considered in the plan:

(a) **Energy efficient motors:** Electric motors are used to drive pumps, fans, compressors, machine tools and a wide variety of other process equipments. Electric motors account for 60-70 per cent of the industrial electricity consumption. Improved design and materials result in improved motors known as energy efficient motors (EEMs). Their efficiency is 3-5 per cent higher than the standard motor efficiency. The data on motors has been obtained from manufacturers. Annexure I shows the technology characteristics of standard and efficient motors. In our analysis, we consider efficiencies of standard motors of reputed manufacturers. The actual efficiencies are likely to be lower as many industries use motors supplied by small-scale units. The annual energy requirement of motors has been computed assuming full-load operation for 4,000 hours. A peak coincidence factor of 80 per cent has been assumed. The life of motors has been taken as 15 years. The connected load for motors/fans/pumps in the IIT industries of Maharashtra is 1,474 MW, for air compressors is 271 MW and for refrigeration is 132 MW (IGIDR-HT Survey[6]). The total connected load for motors in IIT industries in Maharashtra in 1989-90 was 1,877 MW (66 per cent of the total). The break-up of motors into different size ranges in Maharashtra is assumed to be in the same proportion as obtained by Anand and Kothari[8] for all-India. The number of motors in each category has been obtained by taking 7 per cent annual growth rate from the 1989-90 figures (see Annexure 2). There are approximately 2,70,000 motors in the IIT industries of Maharashtra. It is assumed that 20 per cent of the market would be unwilling even in the long-term, (say 20 years). 50 per cent of the incremental cost (difference in cost between EEM and standard motor) is to be provided by the implementing agency. In the absence of a programme, the pay back period ranges from 1.1 year (1.5 hp) to 4.8 years (>50 hp). With the programme the pay back period is halved and ranges from 0.5 years (1.5hp) to 2.4 years (>50 hp).

Table 2 shows the annual targets for the DSM programme on energy efficient motors. (Target in year 1993 indicates target to be achieved in the first year of the plan i.e., 1993-94). It is seen that 9.3 MW of peak

FIGURE 2: TECHNOLOGY DIFFUSION CURVE



demand can be saved by 1997 at a total programme cost of Rs 8.3 crore. The cost is equivalent to a cost of Rs 9,000/kW saved. The total cost of saved demand is Rs 17,600/kW. The cost of saved energy is 63 p/kWh. A total of 28,700 energy efficient motors have to be installed during the plan period. This is equivalent to about five EEMs per industry. Of this 55 per cent (15,800) will be new installations and 45 per cent will be replacements of old existing motors.

(b) *Variable speed drives:* Flows driven by pumps, fans and blowers are usually regulated by throttling. This is an inefficient method of control and results in significant energy losses. A more efficient control method is to control the speed of the motor using a variable speed drive (VSD). Variable speed drives permit continuous regulation of motor speeds which can lead to substantial electricity savings, particularly, when there is partial load operation during a large proportion of the duty cycle. Variable speed drives have significant scope in paper, chemicals, fertilisers, pharmaceuticals and cement industries. The life of variable speed drives has been taken as 10 years. In the present analysis we consider only motors in the size range above 10 hp which operate for 6,000 hours in a year. It is assumed that 25 per cent of all drives above 10 hp will be eligible for variable speed drive applications. We consider an average loading of 90 per cent and energy

savings of 30 per cent. We consider demand savings of 25 per cent. A peak coincidence factor of 80 per cent is assumed. The capital cost (from manufacturers data) has been taken as Rs 9,500 per installed kW in the higher size range (>50 hp)

and Rs 11,000 per installed kW in the size range of 10-15 hp. For existing units an additional installation cost of 10 per cent of the capital cost has been taken. The annual maintenance cost has been taken as 1 per cent of the capital cost. Twenty-five per cent of the initial cost of the variable speed drive is to be borne by the implementing agency. The pay-back period for new installations, in the absence of a programme, ranges from 2.6-2.8 years. This decreases to 2.0-2.1 year with the programme. If the installation cost is also considered for existing units, with the programme, the pay back period ranges between 2.2-2.3 years.

Table 3 shows the annual DSM targets for VSDs. It is seen that the peak demand savings by adoptions of VSDs in the plan period is 37.4 MW at a programme cost of Rs 38 crore. A total of about 6,700 variable speed drives is adopted during the plan period. The cost of demand saved for the utility is Rs 10,200/kW. The total cost of demand savings is Rs 41,100/kW. The energy savings due to VSDs in 1997 is 330 GWh and the cost of saved energy is 105 p/kWh.

(c) *Good housekeeping practices:* Good housekeeping requires training, monitoring and management. On industrial premises, good housekeeping on a sustained basis would require monitoring and management. Meters would be required to monitor major loads. Good housekeeping would include measures like reducing leakage of compressed air, proper sizing of motors, improved daylighting, reducing chilled water usage, improved monitoring and control. Above all, in case of industries it requires continuous supervisory, skilled manpower on a continuous basis which is expensive.

The maximum demand registered by the H T industries (high tension industries) in

TABLE 2: ANNUAL DSM PROGRAMME TARGETS FOR ENERGY EFFICIENT MOTORS

Year	Demand Savings (MW)	Energy Savings (GWh)	Adoptions by New (No)	Existing Adoptions (No)	Total Adoptions (No)	Programme Cost (Rs Lakh)
1993	0.46	2.32	740	700	1440	69.6
1994	1.47	7.34	1630	1480	3110	112.2
1995	3.13	15.65	2770	2370	5140	198.1
1996	5.64	28.21	4280	3490	7770	322.0
1997	9.27	46.36	6330	4900	11230	500.4
Total	9.27	99.88	15750	12940	28690	834.0*

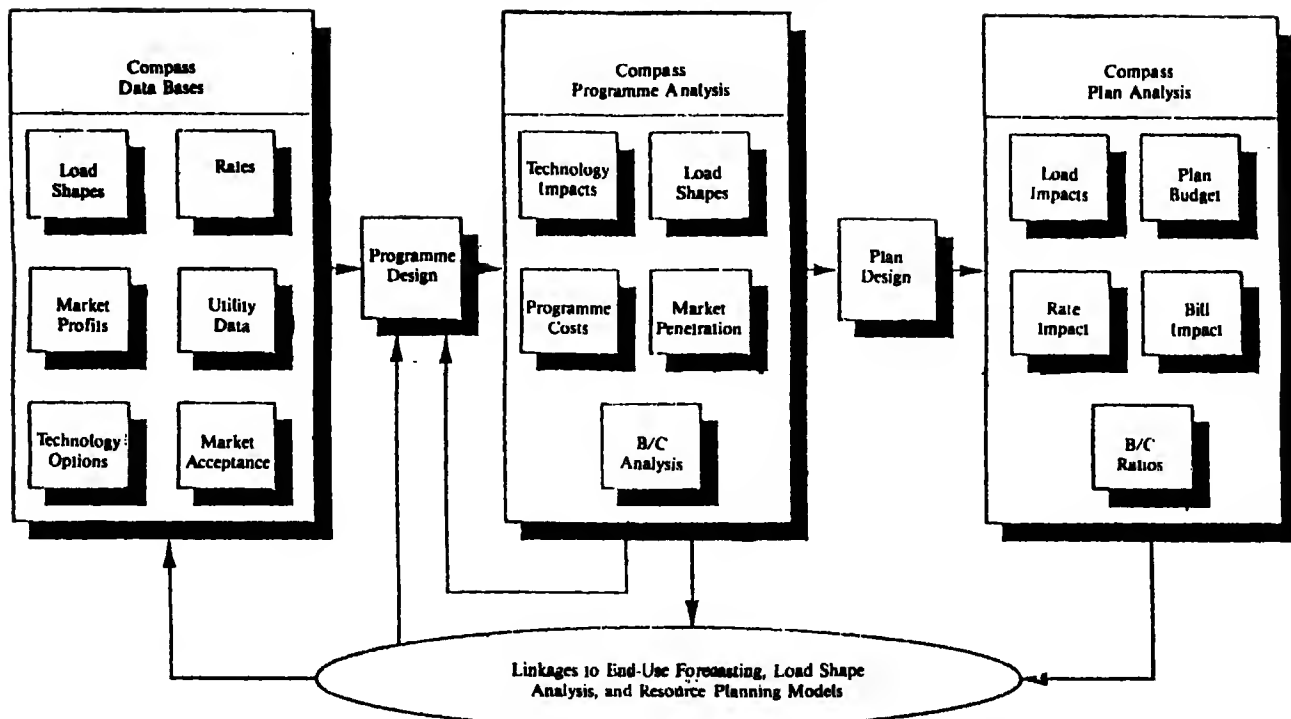
Note: * Discounted total programme cost.

TABLE 3: ANNUAL DSM PROGRAMME TARGETS FOR VARIABLE SPEED DRIVES

Year	Demand Savings (MW)	Energy Savings (GWh)	Adoptions by New (No)	Existing Adoptions (No)	Total Adoptions (No)	Programme Cost (Rs Lakh)
1993	4.12	36.65	50	680	730	509.8
1994	9.26	82.41	160	760	920	651.7
1995	15.91	141.65	310	880	1190	901.2
1996	24.95	222.08	520	1090	1610	1309.8
1997	37.42	333.10	830	1380	2210	1938.8
Total	37.42	815.89	1870	4790	6660	3806.9*

Note: * Discounted total programme cost.

FIGURE 3: OVERVIEW OF COMPASS



1989-90 was 2,266 MVA. Taking an average power factor of 0.9 and an annual growth rate of 7 per cent the maximum demand of the HT industries in 1992-93 is about 2,500 MW. It is difficult to quantify the contribution of the HT industries to the peak demand of about 6,200 MW. According to MSEB around 40-50 per cent of this demand is from the HT industrial sector. MSEB feels that 2,500 MW is a conservative estimate. There were 5,808 HT industrial customers in 1991-92 and the energy consumption by the HT industries was 9,684 GWh. In 1992-93 the number of HT industries is taken as 6,200 with an annual energy consumption of 10,360 GWh and demand (during the peak period) of 2,500 MW. This is equivalent to an average energy consumption of 1,670,000 kWh/year and a peak demand of 400 kW. A DSM programme for improved housekeeping is assumed to save 5 per cent of the energy and power demand in the adopting industry. For each adopting industry an initial amount of Rs 2 lakh is to be spent on additional monitoring/testing equipment and energy audits. Fifty per cent of the initial cost (Rs 1 lakh) is to be given by the implementing agency. It is assumed that the adopting industry will incur an annual expenditure of Rs 50,000 to maintain good housekeeping practices. (It must be mentioned that these figures are for the average HT industry with a peak demand of 400 kW. For industries with different loads the amounts can be proportionately adjusted).

The pay back period for the adopting industry, in the absence of a programme, is 1.4 years. The pay back period reduces to 0.7 years with the good housekeeping programme.

Table 4 shows the annual targets for this DSM option. During the Eighth Plan period a demand saving of about 55.2 MW and energy savings of 229 GWh can be made at a programme cost of Rs 20.8 crore. The cost is equivalent to a cost of saved demand (for the utility) of Rs 3,800/kW. If we include the participant costs the total cost of saved demand is Rs 11,900/kW. The cost of saved energy is 86 p/kWh. Twenty-seven per cent of the industries in 1997-98 adopt this DSM programme.

(d) *Waste heat driven vapour absorption refrigeration systems (VARS):* Conventional vapour compression refrigeration systems account for almost the entire air-conditioning and cooling (refrigeration) load. Instead of vapour compression refrigeration systems it is possible to use vapour absorption refrigeration systems (VARS) driven by waste heat or surplus steam. We consider VARS based on Lithium Bromide water (absorbent-refrigerant) systems. From the IGIDR-HT industry survey, the total con-

TABLE 4: ANNUAL DSM PROGRAMME TARGETS FOR GOOD HOUSEKEEPING

Year	Demand Savings (MW)	Energy Savings (GWh)	No of Adoptions	Programme Cost (Rs Lakh)
1993	6.07	25.16	256	282.0
1994	13.63	56.52	319	351.0
1995	23.49	97.41	416	492.2
1996	36.82	152.65	562	715.5
1997	55.19	228.83	775	1062.5
Total	55.19	560.57	2328	2080.6*

Note: * Discounted total programme cost.

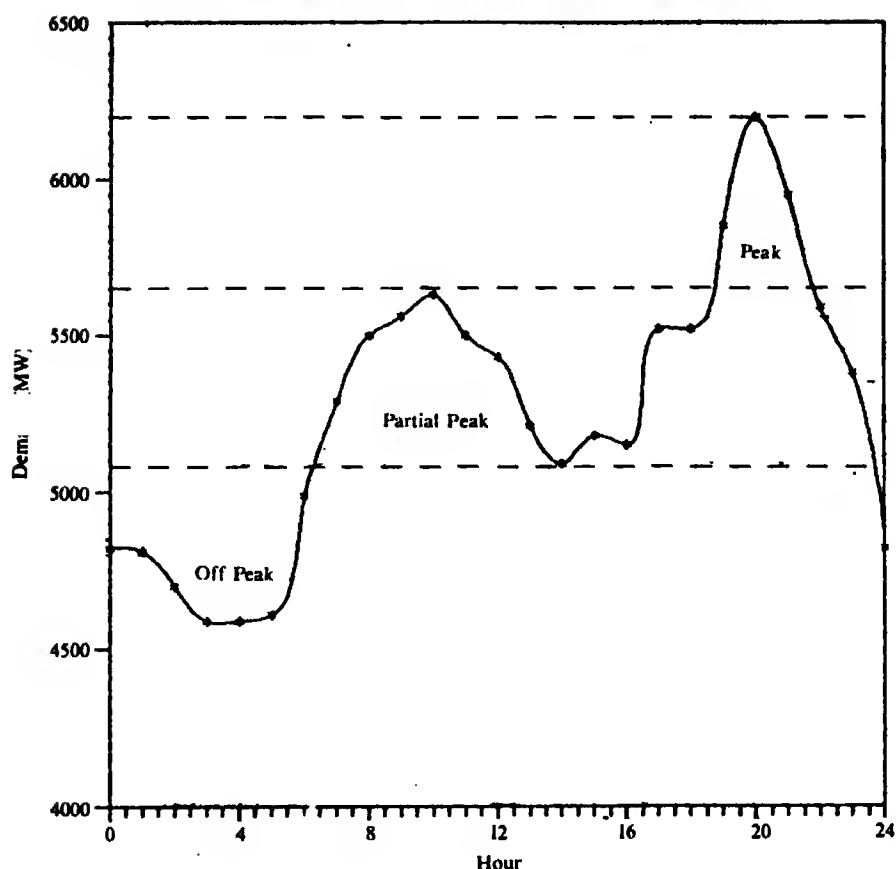
TABLE 5: ANNUAL DSM PROGRAMME TARGETS FOR WASTE HEAT DRIVEN VAPOUR ABSORPTION REFRIGERATION SYSTEMS

Year	Demand Savings (MW)	Energy Savings (GWh)	Adoptions by New**	Existing Adoptions**	Total Adoptions**	Programme Cost (Rs Lakh)
1993	1.19	8.47	1	15	16	157.2
1994	2.67	19.06	3	17	20	182.3
1995	4.67	33.35	7	20	27	260.7
1996	7.41	52.94	12	25	37	380.7
1997	11.19	79.94	19	32	51	561.2
Total	11.19	193.76	42	109	151	1187.0*

Note: * Discounted total programme cost.

** Adoptions given in number of 100 TR units.

FIGURE 4: LOAD CURVE FOR A TYPICAL DAY FOR MSEB (30/4/92)



nected cooling load in 1989-90 was 132 MW. This amounts to a connected load of 162 MW in 1992-93 which is equivalent to 1,62,000 TR (tonnes of refrigeration). Absorption chillers have potential applications in chemicals, synthetics, pharmaceuticals and food industries. It is assumed that 25 per cent of the cooling load is suitable for VARS application. The chillers are assumed to operate for 5,000 hours/year and have a peak coincidence factor of 70 per cent. The costs of the conventional system and the VARS have been obtained as Rs 12,000 and Rs 25,000 per tonne of refrigeration from manufacturers. The average electricity consumption for a process chiller is about 1 kWh/TR while for a VARS it is about 0.1 kWh/TR. The life of both systems is taken as 20 years and the maintenance costs of both systems are assumed to be the same. For existing industries an additional installation cost of 10 per cent has been considered. Thirty per cent of the initial capital cost is to be provided by the implementing agency. For new installations the pay back period without the programme is 1.3 years and with the programme is 0.6 years. For existing installations when the entire cost of the system is an additional investment the pay back period without a programme is 2.7 years. This reduces to 1.9 years with the programme. Twenty per cent of the eligible market is assumed to be unwilling.

Table 4 shows the annual targets for this DSM option. During the Eighth Five-Year Plan period a demand saving of about 11.2 MW can be made at a total cost of Rs 11.9 crore. The number of VARS systems installed is about 150 (of 100 TR each). The cost of demand saved for the utility is Rs 10,600/kW. The total cost of demand saved is Rs 28,000/kW. The energy savings in the terminal year of the plan is 80 GWh and the cost of saved energy is 64 p/kWh.

(c) *Improved electric arc furnaces:* In Maharashtra the iron and steel sector is the largest industrial consumer of electricity. This is mainly accounted for by steel foundries and mini-steel plants. Electric arc furnaces (EAF) can be retrofitted with technologies like scrap preheating, oxyfuel burners, bottom tapping, computerised control

and automation. A base unit of a furnace with a throughput of 10 tonnes is considered. A retrofit cost of Rs 50 lakh/furnace is taken and savings of 30 per cent are assumed [5]. The maximum demand of the mini-steel plants in the MSEB region added up to 446 MVA in 1989-90. For ministeel we take 70 per cent of this load for melting. The results in a demand of 312 MVA for melting in 1989-90 which is equivalent to a demand of 382 MVA in 1992-93. The peak demand in electric arc furnaces is about 400 kVA/ton. This implies that there are about 96 arc furnaces of throughput 10 T in 1992-93. We consider an average electricity consumption of 800 kWh/t and a tap to tap time of 200 minutes. For a 10 T furnace the peak demand is 4 MVA. Considering a power factor of 0.9 we get a peak demand of 3.6 MW. A peak coincidence factor of 50 per cent is assumed. For existing units an additional retrofit cost of Rs 5 lakh/unit (10 per cent of the capital cost) is considered. Eighty per cent of the electric arc furnaces are eligible. Twenty per cent of the eligible market is assumed to be unwilling. Twenty-five per cent of the capital cost is to be borne by the implementing agency.

For new units the pay back period without the programme is 0.7 years and with the programme is 0.5 years. For existing units the pay back period without the programme is 0.8 years and with the programme 0.6 years.

Table 6 shows the annual targets for the improved EAF programme. It is seen that 29 furnaces are retrofitted in the plan period (of which eight are new units). The demand reduction by this DSM option in the plan period is about 17.8 MW at a cost of Rs 3.6 crore. The cost of demand saved to the utility is Rs 2,000/kW. This is equivalent to a total cost of demand saving of Rs 7,500/kW. Improved electric arc furnaces result in energy savings of 95 GWh in the terminal year of the plan and the cost of saved energy is 20p/kWh.

(f) *Time of day tariffs:* There is a wide variation in the MSEB system demand for 24 hours. On a typical day (30/4/1992) the load varied from 4,590-6,200 MW (Figure 4). The peak occurs during 18 to 21 hours. The partial peak (or shoulder) region extends from seven-18 hours and from 21-23 hours. Off-peak duration is from 23 hours to seven hours. If peaking plants are built, they remain idle for the remaining periods

TABLE 6: ANNUAL DSM PROGRAMME TARGETS FOR IMPROVED ELECTRIC ARC FURNACES

Year	Demand Savings (MW)	Energy Savings (GWh)	Adoptions by New**	Existing Adoptions**	Total Adoptions**	Programme Cost (Rs Lakh)
1993	1.91	10.16	0	3	3	64.3
1994	3.81	20.33	0	3	3	47.8
1995	7.62	40.66	2	4	6	96.8
1996	11.44	60.99	2	4	6	104.6
1997	17.78	94.87	4	6	10	184.3
Total	17.78	227.01	8	21	29	360.4*

Note: * Discounted total programme cost.

** Adoptions given in number of furnaces of throughput 10 tonnes.

and do not earn return during these hours. Hence, reducing the peak load is important from MSEB's point of view. This could be done by shifting some of the peak load to other periods. Load levelling would result in improved capacity utilisation. Load levelling or peak shifting could be promoted by the use of tariff-related options like time of use tariffs.

This DSM option is different from the other options as it involves a differential tariff structure. Instead of a flat energy charge of Rs 2/kWh (MSEB tariff for HT industries) the proposed energy charges are Rs 3/kWh during peak time, Rs 2/kWh during partial peak and Rs 1.50/kWh during off peak time. The demand charge remains constant at Rs 100/kW. While Rs 3/kWh at peak times may be approximately the long range marginal cost, Rs 1.50/kWh at off-peak times covers much more than the operating costs (could be further lowered). In case of no action, proposed structure is revenue neutral to customers in case of continuous loads. It is revenue enhancing for the utility for those who have two shifts. Many other price structures are possible. To illustrate the benefits of time of day tariffs, we consider the above tariff structure.

It is assumed that an initial subsidy of Rs 90,000 will be paid by the implementing agency to the adopting industrial unit to cover the costs of a time of use meter (Rs 70,000) and 50 per cent of the cost of a demand controller (Rs 20,000). Miller et al [9] in their study of Pakistan estimate that a demand controller can reduce peak load between 10 and 20 per cent with disruption of production. Miller et al consider a 15 per cent peak reduction in their analysis of load management in Pakistan. We consider a 10 per cent peak demand reduction for the adopting industrial units which may be only 20-30 per cent of the total users. Shifting 10 per cent of the peak demand to off-peak results in an average annual bill saving of Rs 86,000 for the adopting industry. Even if the industry were to bear the total cost of the time of day meter and the demand controller the pay back period would be 1.3 years. The pay back period with the programme is 0.2 years.

A cell in MSEB will have to be set up to co-ordinate the time of day tariff implementation. Brochures and pamphlets will have to be distributed to the target group in order to create awareness of the new tariff structure and the benefits of load shifting. This cell will also conduct workshops on load management and provide on-site guidance and advice to participating industries. The cost of setting up this cell is taken as Rs 30 lakh. This cost will include the cost of preparing manuals for use of demand controllers and planning load shifting. Approximate load shifting measures for different industrial sectors will be identified by this cell. The annual cost for operating and monitoring this programme has been taken as Rs 9 lakh.

Table 7 shows the annual targets for the time of day tariff programme. It is seen that this can result in 110.4 MW of demand savings in the plan period at a total programme cost of Rs 19.0 crore. This is equivalent to a cost of saved demand for the utility of Rs 1,700/kW. The total cost of saved demand is Rs 2,100/kW. In our analysis only 27 per cent of the HT industries adopt the measure in the Eighth Plan period. We consider a 10 per cent saving in peak demand only for these industries. It must be emphasised here that this is an illustrative exercise. A detailed study will be required to assess the appropriate tariff structure and to predict the likely peak shifting impact.

(g) *Replacement of 250 W high pressure mercury vapour (HPMV) lamps by high pressure sodium vapour (HPSV) lamps:* A 250 W HPMV lamp has the same lumen output as a 150 W HPSV lamp (13,500 lumens). Mercury vapour and sodium vapour lamps can be used for lighting industrial shop floors or for street lighting. The HPMV lamp has a power consumption of 272 W, a life of 5,000 hours and a cost of Rs 500. The HPSV lamp has a power consumption of 172 W, a life of 15,000 hours and a cost of Rs 930. The life of ballast (control gear) is taken as 10 years and the cost of the ballast for HPMV is taken as Rs 675 and for HPSV as Rs 600. A peak coincidence factor of 80 per cent and 4,000 hours of operation is assumed. The total lighting connected load from the IGIDR-HT survey was 111 MW in 1989-90. The connected load in 1992-93 is obtained as 136 MW. Of this 13.6 per cent accounts for HPMV and 9.1 per cent HPSV (Nadel and Kothari) [5]. The total market is 157,000 lamps of which the current market share of HPSV lamps is 53 per cent.

It is assumed that 80 per cent of the market is eligible for HPSV (in some cases the poor colour rendering ability may rule out HPSV). In the absence of a programme there is a significant adoption of HPSV lamps by the market. We assume that 10 per cent of the market is unwilling in both the programme and no programme cases. In the programme 25 per cent of the cost of the ballast will be borne by the implementing agency. In the no programme case we assume that the long run market share will be 80 per cent of the eligible market. In this DSM programme we have to consider the free riders' effect, i.e. industries who would have opted for HPSV any way will also put claims on funds from the programme. The number of net adoptions (excluding the free riders) is used to calculate the savings. The programme cost includes the subsidy given to the free riders. This increases the cost of this DSM option.

Table 8 shows the annual targets for this DSM programme. It is seen that there is a net demand saving of 1.4 MW at a programme cost of Rs 0.9 crore. The number of net adoptions in the programme is 36,000 ballasts out of gross adoptions of 54,000 ballasts. The cost of saved demand for the utility is Rs 6,500/kW. The total cost of saved demand is Rs 9,700/kW. Due to the difference in the lives of the bulbs (a single bulb HPSV has a life equivalent to three HPMV bulbs) over the life of a ballast the difference is the annual cost (bulb replacement) pays for the initial cost of switching to HPSV. Hence, there is no net initial cost of energy when taken over the life time of the HPSV ballast. The cost of saved energy is 10 p/kWh.

(h) *Replacement of magnetic ballasts by electronic ballasts:* Fluorescent tubes are widely used in industrial offices and often

TABLE 7: ANNUAL DSM PROGRAMME TARGETS FOR TIME OF DAY TARIFFS

Year	Demand Savings (MW)	Energy Savings (GWh)	Total Adoptions No	Programme Cost (Rs Lakh)
1993	12.14	—	256	269.4
1994	27.26	—	319	319.8
1995	46.99	—	416	447.2
1996	73.63	—	562	648.5
1997	110.37	—	775	961.2
Total	110.37	—	2328	1900.8*

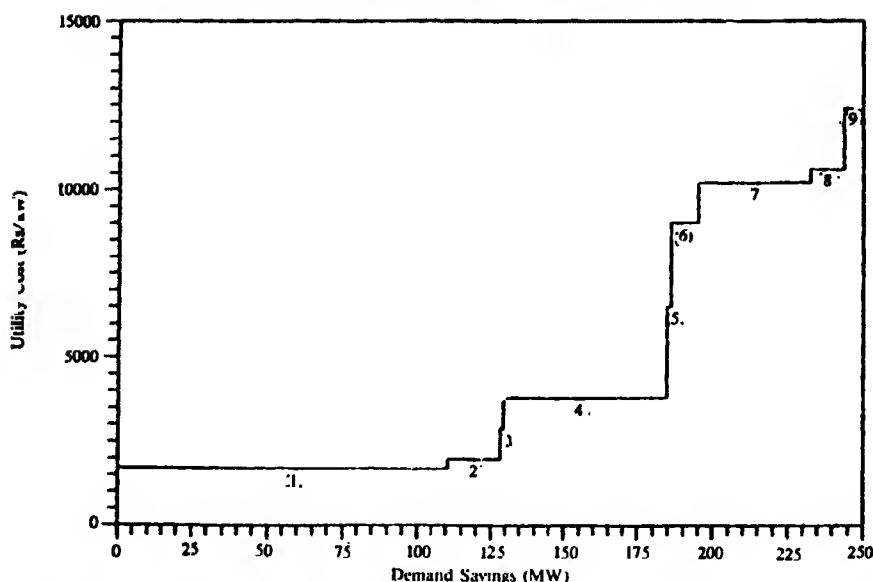
Note: * Discounted total programme cost.

TABLE 8: ANNUAL DSM PROGRAMME TARGETS FOR REPLACING HPMV BY HPSV

Year	Demand Savings (MW)	Energy Savings (GWh)	Adoptions by New (No)	Existing Adoptions (No)	Total Adoptions (No)	Net Adoptions (No)	Programme Cost (Rs Lakh)
1993	0.32	1.62	610	8720	9330	3450	23.4
1994	0.62	3.12	1590	6570	8160	3180	15.9
1995	0.93	4.67	2940	7890	10830	3290	22.5
1996	1.22	6.09	4440	8400	12840	3010	28.6
1997	1.44	7.20	5660	7600	13260	2350	31.7
Total	1.44	22.70	15240	39180	54420	36430	92.7

Note: * Discounted total programme cost.

FIGURE 5: LEAST COST (UTILITY) CURVE FOR DSM IN MAHARASHTRA



1 Time of Day Tariffs; 2 Improved Electric Arc Furnaces; 3 Compact Fluorescents; 4 Good Housekeeping; 5 HPMV by HPSV; 6 Energy Efficient Motors; 7 Variable Speed Drives; 8 Waste Heat VARS; 9 Magnetic by Electronic Ballasts.

* This option is considered at tariffs of Rs 3/kWh for peak, Rs 1.50/kWh off-peak and Rs 2/kWh for partial peak. Other options are at current MSEB tariffs.

in shopfloors. In textiles a large number of fluorescent tubes are used on the shopfloor. Each tubelight fixture has a ballast which provides a high voltage to initiate the discharge and then limits the current. For our analysis, we consider a fixture for a single tube (each of 40W rating). A conventional magnetic ballast for this fixture consumes about 12W. Instead of a magnetic ballast, it is possible to opt for an electronic ballast which draws only 1-3W. For our analysis we take an electronic ballast power consumption of 3W, a life of 15 years, 3,500 hours per year operation and a 80 per cent peak coincidence. The cost of magnetic ballast is Rs 140 and of electronic ballast is Rs 375. According to Nadel and Kothari[5] 73.9 per cent of the industrial lighting load is accounted for by fluorescents. Fluorescents in the HT industry would account for 100.4 MW of connected load (from the HT industry figures). This implies a total market size of 2,15,000 fluorescent tubes (of 40W each). We consider only the replacement market as industries are likely to opt for an electronic ballast only when ballast replacement is due. Fifty per cent of the incremental cost of the electronic ballast is to be provided by the implementing agency. It is assumed that 20 per cent of the market is unwilling.

The pay back period without the programme is 3.2 years and with the programme is 1.6 years. Table 9 shows the annual targets for the electronic ballast programme. It is seen that 2.2 MW of demand saving is possible with this DSM option at a programme cost of Rs. 2.8

crore. A total of 2.6 lakh electronic ballasts will be required during the Eighth Plan period. This is equivalent to about 40 ballasts/industry. The cost of saved demand for the utility is Rs 12,000/kW. The total cost of saved demand, when the participants cost is included, is Rs 24,300/kW. The energy savings in the terminal year of the Plan is about 10 GWh and the cost of saved energy is 100 p/kWh.

(i) *Replacement of incandescents by compact fluorescent lamps:* Incandescent lamps are commonly used in domestic and commercial sectors. Though incandescents account for only about 4 per cent of the industrial lighting, it may be worthwhile to opt for replacing them by compact fluorescents in view of energy savings to the extent of 75 per cent. New compact fluorescent lamps last about eight to ten times longer than incandescents and are four times as efficacious. Compact

fluorescents are now available in the country. An incandescent lamp with a rating of 60W has an output of 700 lumens, a life of 1,000 hours and is priced at Rs 9.60. A 11W compact fluorescent has an output of 900 lumens, a life of 8,000 hours and is priced at Rs 200. The auxiliary consumption of the ballast is 3 W. The cost of the ballast is Rs 150 and the life of the ballast is 10 years. The pay back period without the programme is one year. With the programme this reduces to 0.8 years. A DSM programme for replacement of 60W incandescents by 11W compact fluorescents is considered. According to Nadel and Kothari 3.5 per cent of the industrial lighting is incandescents. From the HT survey figures we arrive at a connected load of 4.6 MW. Hence the total market is 77,000 lamps (of 60W each). A peak coincidence factor of 60 per cent is assumed and the number of operating hours is 3,000/year. Fifty per cent of the capital cost of the compact fluorescent ballast is to be given as subsidy by the implementing agency. It is assumed that 20 per cent of the eligible market is unwilling.

Table 10 shows the annual targets for the compact fluorescent programme. It is seen that the demand savings in the plan period is about 1.1 MW at a programme cost of Rs 0.3 crore. This is equivalent to a cost of Rs 2,900/kW saved for the utility. The total cost of saved demand, including the participant costs, is Rs 6,300/kW. The energy saving in 1997 is 5 GWh and the cost of saved energy is 61 p/kWh. The total number of adoptions of compact fluorescents is 29,000. The total number of CFL bulbs bought during the plan period is 41,000.

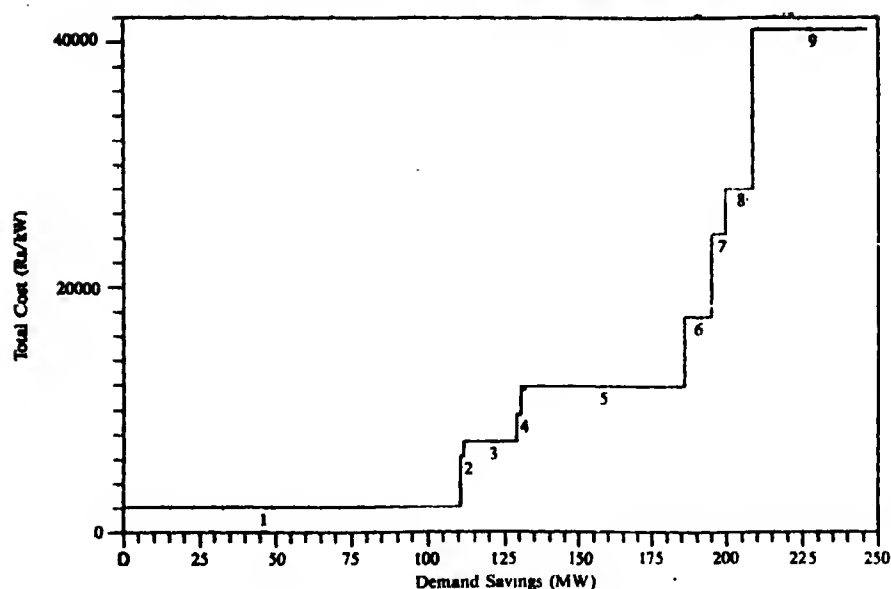
(j) *Industrial Cogeneration:* It is possible to effectively utilise the steam base in industry to generate power in cogeneration schemes. Cogeneration implies the simultaneous generation of power and steam. Cogeneration is thought to be a supply option by some and a demand option by others. Cogeneration schemes have potential in textiles, paper, cement, fertilisers, sugar, chemicals and pharmaceutical industries. A Haigler Bailey study[8] estimated an economic potential of 880 MW for topping cycles in Maharashtra till 1996. Annexure 3 shows the break-up of the cogeneration potential by different industry sectors. MSEB estimates that 330 MW of

TABLE 9: ANNUAL DSM PROGRAMME TARGETS FOR REPLACING MAGNETIC BALLASTS BY ELECTRONIC BALLASTS

Year	Demand Savings (MW)	Energy Savings (GWh)	Adoptions by New (No)	Existing Adoptions (No)	Total Adoptions (No)	Programme Cost (Rs Lakh)
1993	0.11	0.49	6800	6500	13300	23.2
1994	0.35	1.55	15100	13500	28500	37.4
1995	0.76	3.30	25500	22000	47500	66.2
1996	1.36	5.94	39500	32200	71700	107.3
1997	2.24	9.77	58300	45200	103500	166.9
Total	2.24	21.05	145100	119400	264500	278.1*

Note: * Discounted total programme cost.

FIGURE 6: LEAST COST (TOTAL) CURVE FOR DSM IN MAHARASHTRA



1 Time of Day Tariffs; 2 Compact Fluorescents; 3 Improved Electric Arc Furnaces; 4 HPMV by HPSV; 5 Good Housekeeping; 6 Energy Efficient Motors; 7 Magnetic by Electronic Ballasts; 8 Waste Heat VARS; 9 Variable Speed Drives.

• This option is considered at tariffs of Rs 3/kWh for peak, Rs 1.50/kWh off-peak and Rs 2/kWh for partial peak. Other options are at current MSEB tariffs.

net surplus power generation is possible from the existing sugar factories alone in Maharashtra in addition to meeting their own consumption of 24MW. If we add this to the Haigler Bailey estimate we obtain 1,235 MW or 49 per cent of the H T industry peak demand. We take a conservative estimate of 30 per cent of the peak demand of the H T industries which results in an existing potential of 750 MW. The initial capital cost for a topping cycle cogeneration system is taken as Rs 17,500/kW installed and the variable cost of electricity generation is taken as 40p/kWh. For cogeneration in existing units an additional installation cost of 10 per cent of the capital cost is taken. In the absence of a programme we assume that only about 40 per cent of the cogeneration potential will be realised in the long run. In the programme 25 per cent of the capital cost for the cogeneration system is to be borne by the implementing agency. A peak coincidence factor of 80 per cent is considered, an average loading of 80 per cent and an availability of 80 per cent is taken. In the absence of a programme the pay back period for existing industries is 1.9 years and 1.7 years for new industries. The pay back period reduces to 1.4 years for existing industries and 1.3 years for new installations with the programme.

Table 11 shows the annual targets for industrial cogeneration programme. The net demand savings in the terminal year is 242.3 MW at a programme cost of Rs 116.2 crore. This is equivalent to a cost of saved demand for the utility of Rs 4,800/kW. When the participant costs are considered

the cost of saved demand is Rs 19,100/kW. The total installed MW is 281 MW while the net adoptions is 206 MW installed. The installed MW added each year increases from 31 MW in the first year to 94 MW in the terminal year of the plan. The cost of saved energy is 76 p/kWh.

IV DSM Plan

The cumulative sum of the DSM programmes discussed earlier constitutes a DSM plan. Table 12 shows the DSM programmes arranged according to the cost of saved demand for the utility. We have aggregated the programmes without cogeneration (Plan I) and with cogeneration (Plan II). Plan I results in a demand saving of 246 MW at a cost of Rs 106 crore. The average cost for the utility is equivalent to Rs 4,300/kW. The cost of saved demand for the utility ranges from Rs 1,700 /kW (time of

day tariffs) to Rs 12,400/kW (electronic ballasts). For all the measures considered the capital outlay required by the utility is less than that for augmenting supply (by building central power plants), which typically cost between Rs 30,000-40,000 /kW.

When the participant costs are included the total cost of saved demand ranges between Rs 2,100 /kW (time of day tariff) to Rs 41,100/kW (variable speed drives). The total cost of saved demand for Plan I is Rs 12,700/kW. The energy savings by Plan I in 1997 is 805 GWh. The average cost of saved energy is 82 p/kWh. The short run marginal cost of electricity generated by the state electricity boards in India is about 90-130 p/kWh while the long run marginal cost ranges between 177-202 p/kWh. (These values have been quoted by Nadel and Kothari. Actual values are likely to be higher as these costs are prior to rupee devaluation). The cost of saved energy ranges between -10p/kWh (HPSV) to 105p/kWh (variable speed drives). It is evident that the cost of saved energy is less than the short run marginal cost of electricity generation. Though variable speed drives are slightly costlier from the total resource point of view its cost of saved energy is much less than the long run cost of energy generation. In our analysis, we have not considered the capacity utilisation factor for conventional power plants. If an average capacity utilisation of 60 per cent is considered the total cost of saved demand for the costliest DSM option, viz, variable speed drives is Rs 24,700/kW which is less than the capital cost for conventional power plants.

Figure 5 shows Plan I schematically with the cost (Rs /kW) plotted against the demand savings (MW). Figure 6 shows the least cost curve from the total resource perspective (i.e., the total cost of saved demand against the demand savings (MW)). Figure 7 shows the cost of saved energy (p/kWh) plotted against the energy savings (GWh) in 1997. Figure 8 shows the contribution to demand savings, energy savings and programme costs for the DSM options in Plan I.

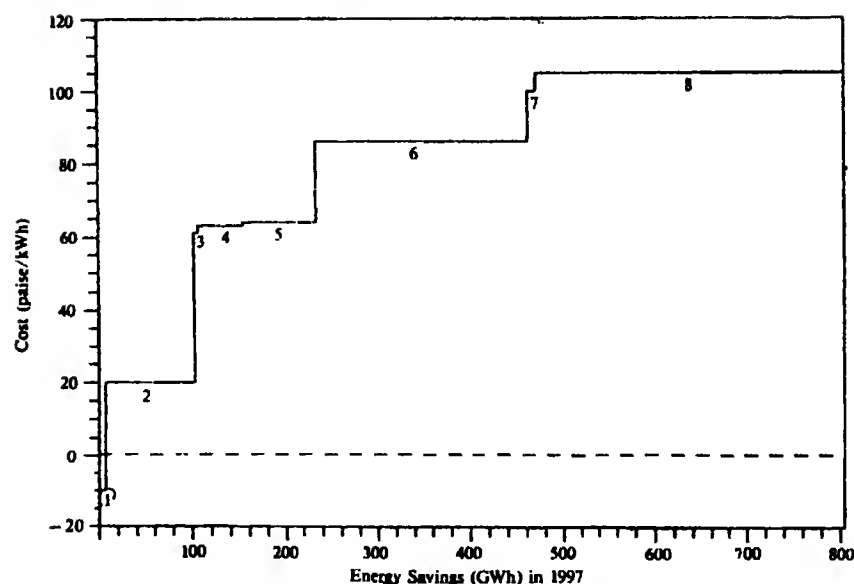
When cogeneration is also considered, the demand saving in Plan II is 488 MW at a cost (to the utility) of Rs 222 crore. The cost of saved demand to the utility, is Rs 4,500/kW. When the participant costs are

TABLE 10: ANNUAL DSM PROGRAMME TARGETS FOR REPLACEMENT OF INCANDESCENTS BY COMPACT FLUORESCENTS

Year	Demand Savings (MW)	Energy Savings (GWh)	Adoptions by New (No)	Existing Adoptions (No)	Total Adoptions (No)	Programme Cost (Rs Lakh)
1993	0.12	0.52	210	2980	3190	10.0
1994	0.26	1.16	690	3280	3970	4.3
1995	0.45	2.00	1340	3820	5160	5.7
1996	0.70	3.14	2260	4730	6990	7.9
1997	1.05	4.70	3620	6020	9640	11.2
Total	1.05	11.52	8120	20830	28950	30.1*

Note: * Discounted total programme cost.

FIGURE 7: LEAST COST ENERGY CURVE FOR DSM IN MAHARASHTRA



1 HPMV by HPSV; 2 Improved Electric Arc Furnaces; 3 Compact Fluorescents; 4 Energy Efficient Motors; 5 Waste Heat VARS; 6 Good Housekeeping; 7 Magnetic by Electronic Ballasts; 8 Variable Speed Drives.

considered the total cost of saved demand in Plan II is Rs 15,900/kW. The energy savings in Plan II is 2,160 GWh and the cost of saved energy is 78 p/kWh. Table 13 shows the physical targets to be achieved during the Eighth Five-Year Plan period.

tion will be the new industries. It will be worthwhile to fix norms for new industries. Before providing a licence/connection to a new industry the energy plan of the new unit should be examined and approved. They

should be also encouraged to consult manuals for efficient technologies, so that they make the right choice. Our survey also indicates a large potential for savings from efficient plant lay-out and design, which are not quantified here.

(d) *Demonstration Programmes:* It is necessary to have controlled and well monitored demonstration programmes for each of the DSM options which clearly illustrate the benefits of the DSM technology. These programmes will result in increased acceptance of the DSM technology. Prospective customers are most likely to adopt the DSM technology when they have seen a working model which clearly shows the benefits.

TABLE 13: PHYSICAL TARGETS FOR DSM EIGHTH PLAN

DSM Option	Target
Energy Efficient Motors	28,700 nos
Variable Speed Drives	6,700 nos
Waste Heat VARS	150 (100 TR machines)
Improved EAF	29 furnaces (of throughput 10 T each)
HPSV	54,400 fixtures gross
Electronic ballasts	2,64,500 nos
Compact Fluorescents	29,000 fixtures
Industrial cogeneration (installed capacity)	280 MW gross
Good housekeeping/ time of day tariffs	2,330 industrial units

TABLE 11: ANNUAL DSM PROGRAMME TARGETS FOR COGENERATION

Year	Demand Savings (MW)	Energy Savings (GWh)	Adoptions by New (MW)	Existing Adoptions (MW)	Total Adoptions (MW)	Net Adoptions (MW)	Programme Cost (Rs Lakh)
1993	33.14	185.80	1.9	28.8	30.7	28.2	1510.2
1994	71.83	402.70	6.8	32.0	38.8	32.9	1983.0
1995	118.06	661.87	12.9	37.1	50.0	39.3	2774.0
1996	174.10	976.05	22.0	46.1	68.1	47.6	4024.1
1997	242.27	1358.02	35.1	58.5	93.6	57.9	5938.5
Total	242.27	3584.44	78.7	202.5	281.2	205.9	11616.5

Note: * Discounted total programme cost.

TABLE 12: EIGHTH FIVE-YEAR PLAN—DSM FOR MAHARASHTRA: SUMMARY OF RESULTS

DSM option	Demand Savings (MW)	Energy Savings in 1997 (GWh)	Programme Cost (Rs Crore)	Utility Rs/kWh	CSE p/kWh	RS/kWh Total Resource
Time of day tariffs	110.4	—	19.0	1700	—	2100
Improved electric arc furnaces	17.8	94.9	3.6	2000	20	7500
Replace incandescents by compact fluorescent	1.1	4.7	0.3	2900	61	6300
Good housekeeping	55.2	228.8	20.8	3800	86	11900
Replace HPMV by HPSV	1.4	7.2	0.9	6300	10	9700
Energy efficient motors	9.3	46.4	8.3	9000	63	17600
Variable speed drives	37.4	333.1	38.1	10200	105	41100
Waste heat driven vapour absorption refrigeration systems	11.2	79.1	11.9	10600	64	28000
Replace magnetic ballast by electronic ballast	2.2	9.8	2.8	12400	100	24300
Plan I	246.0	804.8	105.7	4300	82	12700
Industrial Cogeneration	242.3	1358.0	116.2	4800	76	19100
Plan II	488.3	2162.8	221.9	4500	78	15900

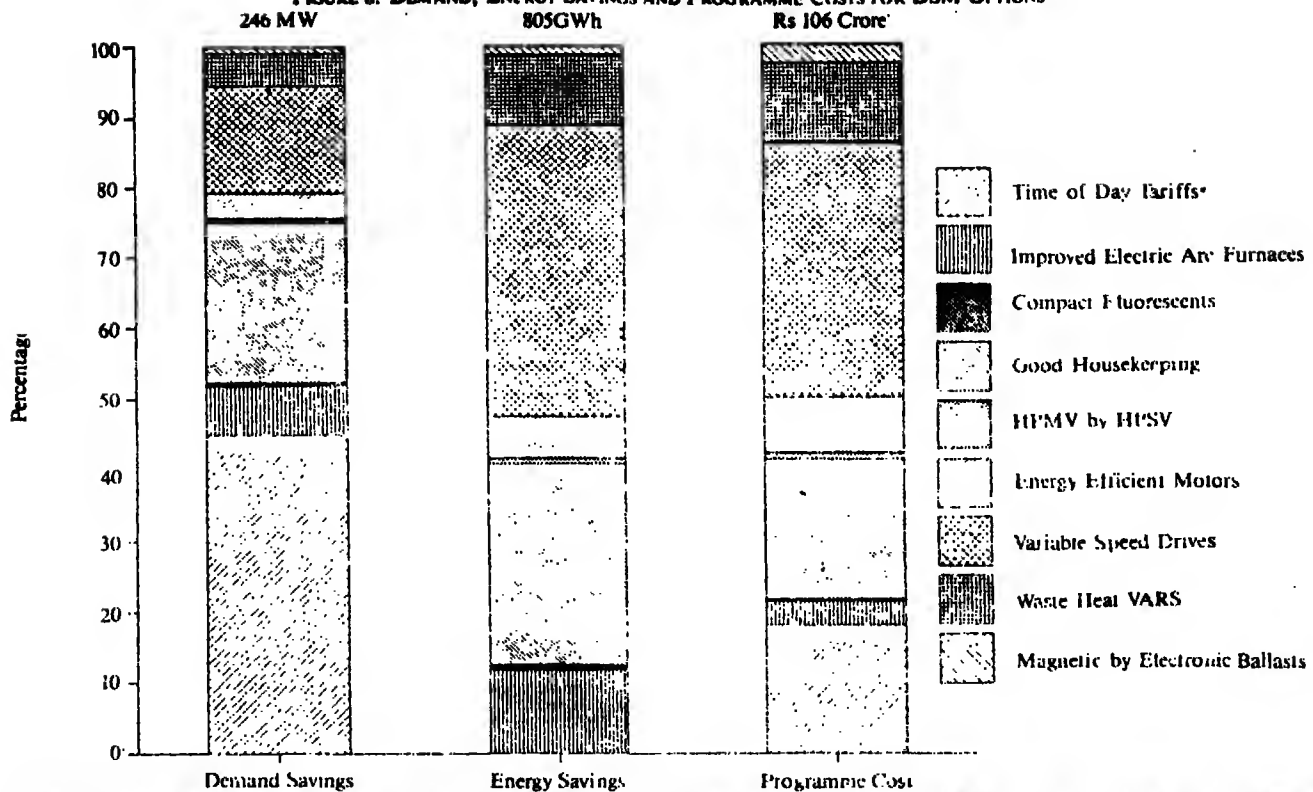
Policy Recommendations

(a) *DSM Plan—mandatory for SEBs:* We have shown that a number of DSM measures are considerably cheaper than building new power plants. Contribution of DSM measures will only be sufficient to offset some of the additional supply requirements but they could significantly reduce the additional investment required for the power sector. Possibilities for DSM need to be examined for every state and DSM needs to be integrated into the power planning process. It should be mandatory for every SEB to formulate an energy-efficiency and DSM Plan before requesting allocations for new power plants.

(b) *Database:* It is necessary to establish a comprehensive database or manuals regarding efficient energy utilisation equipment and practices. New industries and industries which opt for expansion can screen the available options from a range of options before deciding on new equipment/technology.

(c) *New Industries:* The current approach is to contact existing industries for energy audits and try to improve existing plant efficiencies. However, our study points to the need to concentrate on new industries/new equipment. Over a 20-year period, with the industrial growth rate considered, the major contributor to energy consump-

FIGURE 8: DEMAND, ENERGY SAVINGS AND PROGRAMME COSTS FOR DSM OPTIONS



* This option is considered at tariffs of Rs 3/kWh for peak, Rs 1.50/kWh off-peak and Rs 2/kWh for partial peak. Other options are at MSEB tariffs.

(e) **Implementation/Monitoring:** Demand side management programmes need to have an effective agency for implementation and monitoring. It is recommended that the responsibility for managing DSM should be clearly entrusted to a specific agency, be it the utility or energy service companies (ESCOs) or state government agencies such as energy development agencies or central government agency. For each DSM option, a small cell/department will be necessary to initiate the programme, generate awareness, focus on the appropriate target group and monitor the programme. Approximate costs for setting up and monitoring the programme have been included in the analysis.

(f) **Tariff structure:** The fluctuation in the daily load curve emphasises the importance of load flattening. This can be achieved by imposing an appropriate tariff structure. Along with the reduced energy charges for off peak periods increased rates for peak periods are necessary to create sufficient margins for load shifting. The tariffs need to deal with at least eight hours duration offpeak and not more than four hours of peak period. What is needed is a policy for energy rather than demand charge. Only a clearly indicated long-term policy will bring the desired changes. A detailed study of a sample of industrial units should be carried out to decide on the appropriate tariff structure and assess the likely peak shifting impacts.

(g) **Testing facilities and standards:** It is essential to incorporate data on the maximum energy consumption for equipment like motors, fans, blowers, in the specifica-

tions. Norms for different products should be drawn up and testing of energy efficiency of electrical equipment should be mandatory before granting the ISI certificate. Data on the efficiency of the equipment should be included in the product nameplate.

VI Conclusions

This is perhaps the first comprehensive DSM plan worked out for a State in India. While energy supply planning in India is done with a reasonable degree of articulation, no satisfactory approach to formulating a DSM plan exists. While individual details may undergo further refinements, our endeavour is to generate a debate and to formulate a DSM plan that is implementable and has specific annual (and later monthly) targets. This DSM plan is for the IT industries in Maharashtra (Eighth Five-Year Plan). The end-use data has been obtained from the IGIDR-IIT industry survey. Ten different DSM options have been examined and the diffusions of the DSM technology into the market has been simulated. Programme costs for monitoring and implementing the programme have been considered. Annual targets have been chalked out for each of the options. It is seen that Plan I has a demand saving of 246 MW at a cost of Rs 106 crore. The major contributors to the demand savings are time of day tariffs (110 MW), good housekeeping (55 MW), variable speed drives (37 MW), waste heat VARS (11 MW), retrofitting electric arc furnaces (18 MW) and energy efficient

motors (9 MW). Efficient lighting technologies result in a total saving of 4.7 MW. The cost for the utility varies from Rs 1,700/kWh for time of day tariffs to Rs 12,400/kWh for electronic ballasts. Conventional central power plants cost Rs 30,000/kWh for a gas turbine plant and Rs 40,000/kWh for a thermal power plant (land costs have been included and interest during construction has been capitalised). The expenditure for Plan I is Rs 106 crore which is equivalent to a cost of saved demand for the utility of Rs 4,300/kWh. Industrial cogeneration accounts for a saving of 242 MW which is almost equal to the savings achieved through the Plan I options. When cogeneration is included the demand saving in Plan II is 488 MW at a cost of Rs 222 crore. The energy savings in 1997 in Plan II is 2,160 GWh and the cost of saved energy is 78 p/kWh which is less than the short run marginal cost of electricity. This is to be compared with the current MSEB peak demand of about 6 000 MW.

Since customer interest rates are 25 per cent and above and utility interest rates can be lower (around 14 per cent) due to the availability of soft loans, it is necessary to offer an appropriate financial package along with every DSM option. Even after considering the financial package, the cost of saved demand is much lower than that of augmenting supply in centralised power plants. It is seen that the pricing option like time-of-use tariffs, is a major DSM option. It is necessary to have a detailed study of different time-of-use tariffs and their likely peak saving impacts. The results presented in this paper are the preliminary findings of the IGIDR-FMCAT study. Our forthcoming

ANNEXURE 1: TECHNOLOGY CHARACTERISTICS OF MOTORS

Range	Typical Rating hp	STD Motor Efficiency ¹ (Per Cent)	EEM Efficiency ² (Per Cent)	Cost of Standard Motor (Rs) ³	Cost of EEM (Rs) ⁴
1-5	3.0	79.7	86.8	7,500	9,750
5-10	7.5	84.4	88.6	13,300	17,290
10-15	12.5	87.3	91.0	24,100	31,330
15-20	17.5	88.4	92.0	28,500	37,050
20-50	35.0	90.6	92.0	56,200	73,060
>50	100.0	93.0	94.5	187,100	243,230

1 Standard motor efficiencies have been taken as the average of different values obtained from Devki R and D, NPC and equipment manufacturers for that size range.

2 The efficiency of EEMs is taken as the highest efficiency of the available EEM for that size range.

3 Prices have been obtained from a manufacturer's price list (effective from 24/8/1992) and are for totally enclosed fan ventilated motors (C type) for 1500 rpm speed. The prices are inclusive of excise duty.

4 The price of EEMs is taken as 30 per cent higher than standard motors (as per discussions with manufacturers).

ANNEXURE 2: NO OF MOTORS IN EACH CATEGORY FOR HT INDUSTRIES IN MAHARASHTRA

Range	1-5 hp	5-10 hp	10-15 hp	15-20 hp	20-50 hp	>50 hp	Total
Per cent of motor connected load	15.3	10.8	11.1	9.9	13.8	39.1	100.0
Connected MW							
1989-90	287.2	202.7	208.3	185.8	259.0	733.9	1877.0
'000s units 1989-90	128.3	36.2	22.3	14.2	9.9	9.8	220.7
'000s units 1992-93	157.2	44.3	29.3	17.4	12.1	12.0	272.3

ANNEXURE 3: ECONOMIC POTENTIAL FOR INDUSTRIAL TOPPING COGENERATION SYSTEMS IN MAHARASHTRA (1986-1996)

Industry	Potential (MW)
Textile	36
Rayon	31
Pulp and Paper	36
Refineries	148
Fertiliser	279
Basic Chemicals	157
Dyes	58
Food	29
Pharmaceutical	53
Tyres	13
Soaps	41
Total	881

Source: RCG/Haigler Bailley[10].

ing report will include a 20-year plan period, cost benefit analysis from different perspectives, viz, national resource perspective or, societal, utility perspective and customer's perspective. We have also carried out a survey of industrial consumers to see if such a plan will be acceptable to them and to seek their views on its implementability. The survey also helps to assess the potential for and the barriers to implementation of DSM options. In addition to the options considered here other options like improved power factor connection, replacing V belts by flat belts, high efficiency fans and pumps, refrigerant centrifugal compressors and process modifications are being considered in the IGIDR EMCAT study. Results for a 20-year perspective indicate a demand saving of 3,380 MW by DSM in the HT industries of Maharashtra [11].

It is essential that a DSM plan be implemented initially in the state of Maharashtra and its results closely monitored. This will form the basis for launching a meaningful national DSM plan and for integrating DSM planning into the electricity planning framework.

Glossary

DSM: Demand side management—involves co operative action by the utility and customers to achieve customer load modifications in a manner that results in net benefits to the customers, utility and society. In case of India, instead of utility a third party involvement such as the Planning Commission, state government or private enterprise (energy service company) may be necessary. Though DSM includes energy efficiency and energy conservation it is broader as it includes load shape objectives like load shifting, valley filling and peak clipping. DSM options: Option for customer load modifications. This could be through technology, e.g. energy efficient motors; management, e.g. good housekeeping; pricing, e.g. time of day tariffs.

DSM technology: Improved/efficient technology under consideration.

DSM programme: DSM option + programme structure (incentives, etc) + programmes costs for operating and monitoring programme.

DSM-plan: Sum of individual DSM programmes.

Energy efficiency: Efficiency of utilisation of energy. This could be achieved through more efficient equipment.

Energy conservation: Though often synonymous with energy efficiency, energy

conservation can refer to any measure which reduces wastage of energy. This could include managerial options and behavioural changes in addition to technological options.

Energy service company: A company which performs energy conservation as a turnkey job on a contract basis.

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State of Health Care in Maharashtra

A Comparative Analysis

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Health indicators of Maharashtra and Punjab show that they have attained relatively high growth against the background of a high per capita income (PCI) and good economic development while Kerala shows a good development in the health sector in the context of low PCI, low level of industrialisation but relatively good infrastructural indicators. While the first pattern could be attributed to the trickling down effect of capitalist modernisation of the industrial-cum-agrarian variety in Maharashtra and of predominantly agrarian variety in Punjab, the second is rooted in socio-political, geographic and demographic particularities of Kerala.

This article looks into the specifics of Maharashtra's development in health in the context of other socio-economic indicators to examine the relationship between health sector development and capitalist growth.

I

Introduction

ON a societal level such as the 'large cultural systems' [Nathan Dev 1991] which constitute India's linguistic states comprising millions of people, health policy and the resultant development in the field of health is a function of economic, social and political structures. But even as Engels said economics is the determinant factor only in the last instance [quoted in Althusser 1977: 11]. Althusser went further when he pointed out that: "from the first moment to the last, the lonely hour of the last instance never comes" [ibid: 113]. The achievements of the state of Kerala, China and certain Latin American countries such as Cuba and Nicaragua which have attained remarkable indicators of health without a high per capita income (PCI) or high level of industrialisation points to the need to look at the social and political structures which impinge on health development more deeply.

An observer of the health indicators of Indian states will come across two broad patterns of commendable growth. One typified by Maharashtra and Punjab which have attained relatively high indicators of health against the background of a high PCI, and high CMI; index of economic development and the other characterised by Kerala with a very good development in health indicators, in the context of a low PCI, low level of industrialisation, but relatively good infrastructural indicators. While the first pattern could be attributed to the trickling down effect of capitalist modernisation of an industrial-cum-agrarian variety in Maharashtra and of a predominantly agrarian variety in Punjab, [Duggal R 1992] the second pattern is rooted in certain social, political, geographic and demographic particularities of Kerala [Tharakan P K 1984 and Nag Moni 1989] of which the social and political are of relevance to us in our understanding the development of the health sector in Maharashtra.

SOCIO-HISTORICAL CONTEXT

Both Maharashtra and Kerala have witnessed strong movements of the lower

castes. Maharashtra not only had an earlier lead in the social reform movement in the form of the Satyashodhak Samaj set up by Jyotiba Phule in 1873, but at this stage the leadership of the movement remained in the hands of the Malis and other backward castes (OBC). It was after the death of Jyotiba Phule in 1890 and with the entry of the Maharajah of Kolhapur Shahu Chhatrapati that the leadership began to shift into the hands of the landed elite among the Marathas [Gore M S 1989: 11-41 and 53-63]. As a continuation of this trend, in 1930s the non-brahmin movement started getting absorbed into the Congress [ibid: 68-70 and Omvedt G 1976: 2]. Still there were currents of radicalism within the non-brahmin movement such as the one represented by the Peasants and Workers Party (PWP) led by Keshav Rao Jedhe. It must be borne in mind that in the 1952 elections the undivided Communist Party of India (CPI) and the non-brahmin radical parties such as the PWP had scored almost the same percentage of votes in Maharashtra as the CPI in Kerala and Andhra, i.e. about 15-20 per cent [Omvedt G 1976: 281-82]. The political formations floated by Ambedkar such as the Independent Labour Party (ILP) and the Republican Party of India (RPI) also could not go too far in mobilising all the depressed castes [Shah G 1991: 111]. Towards the end of his life in 1956 Ambedkar was involved in a series of correspondence with Ram Manohar Lohia and his associates on an alliance between the dalit movement and the socialists. This however did not come through [Lohia 1979: 29-37]. With the absorption of PWP also into the Congress fold a formidable fortress of Maratha-OBC brahmin alliance was built up [Zellio L: 1970 and Omvedt G 1976: 2 and 281] which distributed the benefits of power to the elites of these three groups and later on extended its spoils to the dalit elite also. In the process whatever development that has taken place in such sectors as health which are intimately related to the well-being of the people is more out of an evolutionary fall out of developing capitalism, which for its unhindered growth required also that some form of a new

patron-client relationship was nurtured between the elite politicians and the electorate. This largely uncommitted model of development has resulted in vast rural-urban and intra-regional disparities in Maharashtra to which even the unpreparedness in facing the current drought can also be attributed [Dhanagare D N 1992]. We turn to these points in detail at a later stage.

In contrast to the socio-political scene of Maharashtra the social reform movements of the ezhavas and pulayars of Kerala which began during the 1890s prepared the social base for the anti-establishmentarian politics of the state. The ezhava elite in their quest for better social status had mobilised the poorer sections of their community, who in the process got radicalised to an extent beyond which the elite could not satisfy them [George 1986]. At this point they turned to the communist movement which was emerging. True, the Travancore kings had created a large middle peasantry after crushing the Nair-feudal aristocracy, confiscating the land held by them and declaring all former tenants of this aristocracy as the tenants of the state who were later on granted ownership rights in 1865 [Verghese T C 1970: 64]. True also, that in order to satisfy the aspirations of this large middle peasantry who became the social base of the so-called modern Travancore, the state had embarked on various welfare measures in social services including health. But the breakthrough which Kerala made in the social sectors after independence cannot be seen as a mere vegetative outgrowth of the Travancore-Cochin model on to the rest of the less developed parts of the state which were under direct British rule. While on the one hand the rightist forces when they were in power wanted to penetrate some of the less developed districts in Malabar which were leftist strongholds, on the other hand the welfare aspirations of the people of these districts themselves were raised and they wanted to be on par with their counterparts in the better developed districts. The left governments which have ruled Kerala off and on for short durations have proved to be the nodal points setting progressive directions for the state [Isaac

and Kumar 1991]. The left has been able to enforce a welfarist consensus in Kerala with the power of its mass base and the occasional chances to rule the state. Now, it has reached a stage where for fear of public reaction even the rightist political parties can not tamper with this consensus too much when they come to power at the state level.

In the following presentation we look into the specifics of Maharashtra's development in health in the context of other socio-economic indicators to substantiate the observations made above. We will be making comparisons with Punjab and Kerala as already mentioned and also with Bihar and Madhya Pradesh (MP) which are not as developed as the other three states.

SOCIO-ECONOMIC INDICATORS

Maharashtra has a population of 79 million according to 1991 Census and with 9.4 per cent of the country's land area, it is one of the largest states in India. Its density of population of 256 persons per sq km in 1991 is comparable to that of India which is 267 per sq km. At 1970-71 prices the state had a per capita income of Rs 1,439 in 1986-87 which is second only to Punjab which was Rs 1,652. The percentage share of the manufacturing sector to State Domestic Product (SDP) in 1988-89 at 1980-81 prices for Maharashtra was the highest in the country at 22.80 per cent. It also had the largest number of persons working in non-agricultural enterprises. This pattern was also followed in the financial sector with the highest per capita bank deposits and advances. In most of these indicators of economic development Bihar and MP fare very poorly. Punjab not only scores highly in per capita income but also registers good financial indicators. Basically an agricultural state, it can boast of 91.3 per cent of irrigated land as opposed to Maharashtra's 12.4 per cent. Kerala has middle level of PCI, very low percentage share of the manufacturing sector of SDP, less persons working in non-agricultural enterprises compared to even Madhya Pradesh, but higher per capita bank deposits and like Punjab comparatively less per capita bank advances. This can be linked to both the low level of industrial enterprise in these two states and the inflow of remittances from abroad.

Among the other infrastructural indicators of development it is noteworthy that Maharashtra has achieved 100 per cent electrification of its villages. However without the data on rural domestic consumption of electricity, excluding agricultural consumption, this data cannot carry us too far. In total road length per 1,000 sq kms Maharashtra comes the highest, with MP a distant second. Again without the rural-urban composition of this data we cannot infer much. When it comes to percentage of villages connected by all weather roads, in Kerala it is 100 per cent and Punjab 99 per cent, Maharashtra's position is a distant 3rd with 53 per cent, which however is much higher than that of Bihar and MP which are

abysmally low at 35 per cent and 23 per cent respectively in 1987-88.

Maharashtra has an urban population of 38.73 per cent as per the 1991 Census which is the highest in India. Punjab and Kerala has 30 per cent and 26 per cent urban population, respectively. A large part of Maharashtra's urban population is concentrated in Bombay itself. The state according

to 1981 Census has to look after the well-being of 22.6 per cent of the population who are either scheduled castes (SC), scheduled tribes (ST) or Neo-Buddhists (who are SCs who got converted in 1956 with Ambedkar). Punjab has the highest SC Population of 26.9 per cent whereas MP has a combined total of 37 per cent of SCs and STs.

Average size of land holding is an impor-

TABLE 1: HEALTH INDICATORS OF SELECTED STATES

		Maha-rashtra	Bihar	Kerala	Madhya Pradesh	Punjab	India
Annual birth rate per 1000 live births 1987-90	R	29.5	33.8	19	38.70	28.40	31.50
	U	23.6	24.6	19.30	29.10	25.60	24.40
	C	27.5	32.9	19	36.90	27.60	29.90
Annual death rate per 1000 1987-90	R	8.4	11.0	5.90	13.60	8.50	10.40
	U	5.2	6.2	5.80	7.50	5.80	6.70
	C	7.7	10.6	5.90	12.50	7.80	9.60
Infant mortality rate per 1000 live births 1990	R	64	77	18	119	58	86
	U	44	46	16	61	45	51
	C	58	75	17	111	55	80
Per cent of infant deaths to total deaths 1981-85	R	23.56	29.04	9.25	31.85	20.55	28.27
	U	19.34	26.19	10.39	26.44	22.45	21.27
	C	22.43	28.86	9.47	31.13	20.98	27.16
Life expectancy 1981-85		60.60	52.80	68.40	51.60	63.10	55.40
Attended births by qualified personnel/institutions 1988 (per lakh pop)		46300	23800	91100	—	80600	41200
Attended deaths by qualified personnel/institutions 1988 (per lakh pop)		58500	33200	74800	—	69000	46100
Decennial growth rate 1981-91		25.43	23.49	14.06	26.75	20.26	23.56
Marital fertility 1988	R	159.80	199.90	117.00	193.50	168.30	177.70
	U	139.50	177.40	120.90	166.60	152.60	146.20
	C	152.90	196.60	117.70	188.50	163.90	170.70
Statewise immunisation coverage (0-23 months) 1986-87							
TT2 (Tetanus Toxoid)		93.70	10.10	104.00	35.60	56.20	45.60
DP2 (Diphtheria Pertussis Tetanus)		99.20	12.30	82.90	45.40	70.00	56.50
OPV3 (oral polio vaccine)		92.00	9.00	91.10	36.90	71.20	48.60
BCG (Bacille Calmette Guerin)		98.80	15.10	99.20	52.70	69.00	47.90
SL (measles vaccine)		23.70	—	32.00	8.40	18.40	16.70
Per cent of children taken booster dose of polio and triple-antigen (0-15 years) 1986-87*							
Polio	R	34.45	2.42	23.44	6.36	24.42	10.77
	U	48.62	11.94	31.73	23.88	43.84	26.82
Triple-antigen	R	30.21	0.93	21.74	1.89	15.92	7.53
	U	43.09	7.76	29.39	12.79	32.03	20.51
Annual IR of poliomyelitis per 1000 children (0-4 years) 1981-82	R	1.40	—	—	1.90	3.10	1.70
	U	1.30	—	—	1.70	1.70	1.60
Annual Neo-natal Tetanus mortality rate per 1000 live births (1981-82) (0-15 years)	R	4.70	11.30	2.00	20.40	8.40	13.30
	U	4.90	5.30	1.90	1.40	3.10	3.20

Notes : R = Rural, U = Urban, C = Combined.

IR = Incidence Rate.

* = Booster dose by sector and state and all India.

Sources: (1) Centre for Monitoring Indian Economy, Vol 2, States, Basic Statistics Relating to the Indian Economy, September 1991.

(2) National Immunisation Programme, Series 1, NIIHW Data—New Delhi, December 1988.

(3) Sarvekshana—Vol XIV, No 4, Issue No 47, NSS Data, April-June 1991.

(4) Sample Registration System, Registrar General of India, Ministry of Home Affairs, Government of India, various years.

tant indicator of distributive justice in a predominantly agricultural country like ours. However, here Maharashtra falls with the states like MP and Punjab where the average size of holding is as high as nearly three hectare. Thanks partly to the successful land reforms in Kerala it is only 0.36 hectare and in Bihar only 0.87 hectare. Latter definitely not due to land reforms, but the high concentration of land in a few hands.

Coming to human indicators of development the sex ratio in Maharashtra in 1991 is 936 females per 1,000 males which is not much higher than India's average of 929 per 1,000. This is far higher than Punjab's 888 per 1,000 or Bihar's 912 per 1,000 but less than 1,040 per 1,000 of Kerala. Nowadays however under reporting of women is suggested as a reason for the low sex ratio. In literacy Maharashtra has made a remarkable improvement between 1981 and 1991 from 54 per cent to 63 per cent. Percentage of female literacy is all the same low at 51 per cent in 1991, but even this is much higher than the national average of 39 per cent. Drop out rates in I-Vth standards between 1982-83 and 1986-87 was 42.1 per cent in Maharashtra, which was slightly lower than the national average and closer to MP's 42.4 per cent and Punjab's 39.4 per cent but is far below Kerala's achievement in this field of 0.4 per cent.

HEALTH INDICATORS

Mortality, life expectancy and morbidity are the major indicators of health status. In India the only information available is that collected through sample surveys for most of these. Some of the family welfare indicators can also be used derivatively for assessing performance in health.

In life expectancy, infant mortality, death rate and percentage on infant deaths to total deaths, which are indices directly linked to health care, and in other family welfare related indices such as birth rate and marital fertility which are indirectly linked to health, both Maharashtra and Punjab show quite interestingly similar levels of moderate achievements. Kerala has a very high level of attainment and at the other end of the spectrum MP and Bihar come as low attainers. Rural-urban differences are manifest in Maharashtra and Punjab and even stronger in MP and Bihar. In the case of Maharashtra this is very clear in IMR, which is 64 per 1,000 in rural areas as compared to only 44 per 1,000 in 1990 in urban areas. Punjab has a lower IMR of 58 per 1,000 in rural areas while its urban IMR is almost the same as Maharashtra's. Kerala has been able to bridge the rural-urban gap in health indicators and interestingly in some indicators like birth rate and marital fertility rate rural areas score over urban areas. This has been primarily due to the infrastructural development in rural Kerala, including health infrastructure. Maharashtra's decennial growth rate (1981-91) of 25.43 is higher than the national rate of 23.56. This could have been comparatively lower but for the death rate which is 7.3, i.e. 0.5 less

than Punjab's and somewhat closer to Kerala's 5.9. Migration from other parts of the country to the urban centres could be another reason.

The larger studies on morbidity in India are those conducted by the National Sample Survey Organisation (NSSO). But most of these have shown very low rates of morbidity compared to the studies undertaken by some non governmental organisations. For example the 28th round of NSS conducted in 1973-74 showed that for a recall period of two weeks, prevalence of acute diseases was 27.57 per 1,000 population in rural Maharashtra and 32.18 per 1,000 in urban Maharashtra. This was in comparison with 22.46 per 1,000 in rural India as a whole and 22.77 per 1,000 in urban India. In chronic diseases, rural areas of Maharashtra recorded 1,609 cases per 1,00,000 as against rural India's 2,098 per 1,00,000. While urban Maharashtra registered a prevalence rate of 1,590 per 1,00,000 as opposed to urban India's 1,962 per 1,00,000 [NSSO 1980]. The 42nd round of NSS (1986-87) presented a prevalence rate of 64 per 1,000 in rural areas of India and 31 per 1,000 for

the urban areas for a recall period of one month. Statewise breakup of this data is not available [NSSO 1989] due to the extremely fragmented manner in which data is presented. A study conducted by FRCII in 1987 in the Jalgaon district of Maharashtra in fact showed that the prevalence rates are quite higher than the NSS figures. For a recall period of one month the prevalence rate for acute episodes was 95.40 per 1,000 population and a chronic prevalence of 1,702.71 per 1,00,000 population [Duggal R and Amin S 1989, 37 and 17]. Another FRCII study in two districts of Madhya Pradesh which is being finalised showed an acute prevalence rate of 162.17 per 1,000 for a one month recall period and a chronic prevalence rate of 12,824.46 per 1,00,000. A study conducted by the Kerala Sastha Sahitya Parishad also yielded high rates of morbidity in Kerala comparable with the FRCII figures. For a two-week recall period Kerala has shown an acute prevalence rate of 206.39 per 1,000 in 1987 and a corresponding figure of 13,802 per 1,00,000 population for chronic ailments [Kannan, KP et al 1991: 63 and 66].

TABLE 2: HEALTH INFRASTRUCTURE IN SELECTED STATES (1990)

	Maharashtra	Bihar	Kerala	Madhya Pradesh	Punjab	India
No of Hospitals						
Per cent rural	11.80	25.50	79.44	22.93	43.77	31.33
Per cent government/local bodies	28.23	81.54	7.74	100.00	85.28	43.21
Per cent private	71.77	18.46	92.26	—	14.72	56.79
Total (actuals)	1881	298	2053	362	265	9663
No of Dispensaries						
Per cent rural	9.22	96.25	70.94	76.16	85.58	45.12
Per cent government	17.03	100.00	2.69	100.00	99.23	42.46
Per cent private	82.97	—	97.31	—	0.76	57.52
Total (actuals)	9135	427	1748	365	1567	27031
No of Beds (per 1,000 population)						
Rural	5095.77	32624.01	519.70	24196.20	1595.99	6189.82
Government/local bodies	1340.38	3803.98	985.28	2963.34	1103.87	2239.71
Private	2132.71	15595.89	655.06	—	5323.17	4901.51
Total (actuals)	95326	28233	73789	22318	22084	54926

Source: Health Information of India, CBHI, DGHS, GOI, New Delhi, 1990.

TABLE 3: RURAL HEALTH INFRASTRUCTURE IN SELECTED STATES (1992)

Heads	Maharashtra	Bihar	Kerala	Madhya Pradesh	Punjab	India
Average rural population served by a SC	5145	5065	4192	4264	4973	4816
Average rural population served by a PHC	29243	30060	23442	42967	6928	27946
Average rural population served by CHC (in lakhs)	1.69	7.07	3.95	2.90	1.64	3.14
Maximum radial district covered by a SC (in kms)	3.21	1.91	1.52	3.42	2.34	3.04
Maximum radial district covered by a PHC (in kms)	7.62	4.66	3.59	10.87	2.77	6.67
Maximum radial district covered by a CHC (in kms)	18.35	22.63	14.78	28.23	13.48	22.27

Note : SC - Sub Centre, PHC - Primary Health Centre, CHC - Community Health Centre.
Source: Rural Health Bulletin, MHFW, GOI, New Delhi, March 1992 (Figures are provisional).

An evaluation study conducted by the National Institute of Health and Family Welfare (NIHFW) in 1986-87, after the immunisation programme was declared part of technology missions, on children aged between 0-23 months showed that the states of Kerala and Maharashtra had achieved extremely high rates of immunisation followed by Punjab which ranked moderately high while Bihar showed very poor achievement [Sokhey J 1988: 29 and 38]. However, the NSS study of children of 1-15 years which obviously included children born before the mission started and could not be effectively immunised later showed much lower rates of immunisation [NSSO, *Sarvekshana* April-June 1991].

It needs to be brought out at this juncture that the major illnesses of children in India such as diarrhoea and respiratory infections are not immunisable diseases and that therefore the attempt to project the immunisation programme as the guardian angel of India's children has to be taken with a pinch of salt only. 60-90 per cent of deaths in the early age groups are caused by diarrhoea followed by respiratory infections. [Sathyamala 1989]. These non-immunisable diseases deserve more attention because it is the children of the poor who are more prone to these diseases due to inadequate standards of food and hygiene.

HEALTH INFRASTRUCTURE

The registration information on private hospitals and dispensaries in India is far from satisfactory. But on the basis of the available data from the registered hospitals and dispensaries we find a bias against the rural areas in many states. In both hospitals and dispensaries the rural-urban difference is quite high in Maharashtra. 88 per cent of hospitals and 91 per cent of dispensaries in Maharashtra are in urban areas. Punjab's registration data on hospitals seems to be of poor quality. The total number registered is very low. But within this the rural-urban distribution is more even. In dispensaries a very high percentage (85.38 per cent in Punjab) are in rural areas. 79 per cent of Kerala's hospitals and 71 per cent of dispensaries are in rural areas. 72 per cent of all hospitals and 83 per cent of all dispensaries in Maharashtra are in the private sector. Even in Kerala 92 per cent of hospitals and 97 per cent of dispensaries are in the private sector. This would be because of the increasing aspirations of people which cannot be met by the public health system which concentrates more on a quantitative expansion of primary health care. But equally important is the vanities of a status conscious middle class whose numbers are on the rise due to the inflow of gulf money, expansion of cash crop cultivation, trading and service sectors.

There is a high disproportion in availability of hospital beds in Maharashtra between rural and urban areas, although it is not as high as in MP or Bihar. While there is only one bed per 5,096 persons in rural Maharashtra it is as low as one bed per 355

persons in urban Maharashtra. Rural Punjab has a bed population ratio of 1:1,596 while urban Punjab has a ratio of 1:455. In Kerala the rural areas have one bed per 520 persons, as opposed to 1:235 in urban areas. The rural-urban differences in health infrastructure poses an even greater problem because only 53 per cent of Maharashtra's villages have all weather roads. In MP and Bihar where rural transportation is far less developed the urban bias in health infrastructure development will be compounded many times. There was one public hospital bed available per 1,348 persons in Maharashtra as against one private hospital bed for every 2,133 persons. In Punjab it was 1:1,104 and 1:5,323 respectively. The Kerala rate for the same were 1:985 and 1:655 respectively. The above data refers to the year 1990.

In the governmental rural health infrastructure Maharashtra has one subcentre per 5,145 persons as on March 31, 1992 which is the best among the states we have chosen for comparison. The state is third in the PHC population ratio—one PHC per 29,243 persons. Punjab is the first in this with one PHC per 6,928 persons and Kerala a distant second with one PHC per 23,442. In the Community Health Centre (CHC) population ratio the state is second with one CHC per 1.69 lakh population. Punjab is

first here also with ratio of 1:1.64 lakh. MP is third with 1:2.90 lakhs. Among the five states compared Maharashtra is in the fourth position in the maximum radial distance covered by subcentres which is 3.21 km, while it is as low as 1.32 km in Kerala, 1.91 km in Bihar and 2.34 km in Punjab. In the case of PHCs, Punjab has the lowest maximum radial distance of 2.77 km followed by Kerala with 3.59 km and Bihar with 4.66 km. In Maharashtra it is as high as 7.62 km. In the maximum radial distance served by CHCs Punjab stands first with 13.4 km, Kerala second with 14.78 km and Maharashtra 18.35 km. The very high distance people in Maharashtra have to travel to reach the sub-centres and PHCs, the basic units of rural public health care, calls for remedial action in favour of rural areas.

HEALTH PERSONNEL

The distribution of allopathy doctors in all the four states except Kerala is highly skewed in favour of urban areas. This observation is based on the 1981 Census data which we feel is more accurate to arrive at certain patterns than the Medical Councils' data since the council's lists may contain more names of persons who have died or are not practising, and not all practitioners register themselves. Since 1991 data in this

TABLE 4: HEALTH HUMANPOWER IN SELECTED STATES (1981)

Type of Medical Practitioner	Maharashtra	Bihar	Kerala	Madhya Pradesh	Punjab	India
Allopathy						
Per cent rural	24.28	34.56	78.88	22.45	40.46	28.46
Total No	31964	10802	7774	10697	9541	209511
Ayurvedic and Unani						
Per cent rural	44.85	64.21	76.46	55.65	48.26	55.54
Total No	6272	3068	7826	7917	5039	70411
Homeopathy						
Per cent rural	52.83	69.42	75.45	36.13	36.36	57.29
Total No	2300	9117	3393	1251	462	63714
Not Elsewhere Classified						
Per cent rural	38.00	78.23	82.23	47.26	19.51	59.66
Total No	1808	1139	1133	1623	123	43827
Total						
Per cent rural	29.47	53.56	77.61	37.36	42.76	41.13
Total No	42344	24126	20126	21488	15165	373853

Source: Census of India 1981, General Economic Table, Series I—Part III-B, Census Commissioner, GOI.

TABLE 5: REGISTERED PRACTITIONERS IN SELECTED STATES*

Type of Medical Practitioner	Maharashtra	Bihar	Kerala	Madhya Pradesh	Punjab	India
Allopaths (1987)	41035	23450	15568	8526	24615	331630
Ayurveda (1985)	30852	34706	11662	27827	17166	264800
Homeopathy (1986)	13444	21572	4571	5384	6062	131091
Unani (1986)	535	3174	57	221	5606	28715

* As per various councils.

Note : Data with regard to Madhya Pradesh is low due to under-reporting by the respective council.

Sources: (1) Indian systems of Medicine and Homeopathy in India, Planning and Evaluation Cell, MHFW, GOI, New Delhi, 1986.

(2) Health Information of India, CBHI, DGHS, GOI, 1991.

regard is not available, we have only computed percentages for various categories of doctors which are unlikely to undergo any drastic change during 10 years. As high as 76 per cent of allopaths in Maharashtra are in urban areas. An even higher 77 per cent of them are in urban areas in MP followed by Bihar with 65 per cent. In Punjab the rural-urban breakup of allopaths is more balanced at 40:60 respectively. In other systems also the pattern is not widely different except that the percentage of 'ayurvedics' and 'homeopaths' in rural areas is more in Bihar, while the corresponding percentage of homeopaths is higher in Maharashtra. MP also has a slightly higher percentage of ayurvedics in rural areas.

HEALTH EXPENDITURE

To know the emphasis, growth and the extent of health care in the country/state it is important to look at the expenditure on health. There are three major groups in the provision of health care and consumption of health resources in India. The public sector consists of the central government, state government, municipal and local bodies. The private sector includes private organisations and institutions, corporate bodies providing medical care to their employees and the NGOs. Thirdly, the households constitute the largest constituent who spend on health care. Compared to the private health sector finances, data on public health sector finances is fairly well documented.

Public Expenditures

The total financial outlays on Maharashtra are around 10 to 12 per cent of the outlays for India. A breakup of the plan expenditure brings out the fact that in the first plan period, the state was spending 46.44 per cent of its total plan expenditure on social and community services, which got reduced drastically to 18.85 per cent in the sixth plan period. Irrigation, Power and co-operation became top priority, this was at the cost of social and community services [Statistical Abstract of Maharashtra, March 1991]. This shift in priorities could be attributed to the presence of the strong sugar lobby in Maharashtra politics. There is a wrong assumption that Maharashtra gives a high priority to the social and community services. Examining the latest available public expenditure of Maharashtra for the year 1990-91, this fact is reinforced. Out of a total government expenditure (revenue+capital, plan+non-plan) of Rs. 1,17,437.63 million, 27.03 per cent was spent on social and community services, 3.68 per cent on medical and public health, 0.54 per cent on family welfare, 1.82 per cent on water supply and sanitation and 0.94 per cent on housing [Government of Maharashtra, 1992].

Comparing the trends in expenditure on health with other selected states, the same holds true. For the year 1985 Maharashtra incurred expenditure on health of only Rs

35.62 per capita per year which was 6.31 per cent of total government revenue expenditure. This was less than what was incurred in Kerala and Punjab. A point to be noted is that Kerala is economically, a poorer state when compared to Maharashtra, but still gives a high priority to the health of its people. Health sector in Maharashtra in the late 80s is showing a down trend as percentage to government expenditure. Between the year 1985 and 1991 this ratio has halved in Maharashtra from 6.3 per cent to 3.68 per cent.

Further, analysing few selected components of health care like curative care, disease programmes and family planning, one finds Maharashtra between the years 1971-1985, compared to Kerala and Punjab, gave priority to family planning services, (17.20 per cent) and diseases control programmes (19.35 per cent). The latter two states and Bihar spend more than 50 per cent of their health expenditure on provision of curative care services, as compared to Maharashtra which spends only 24.64 per cent of its health budget on curative care. Various studies have shown that curative care is the main need of the people in rural areas, but what is instead given is family planning services. Family planning is one of the main priorities for all the states and there has been a steady increase in terms of outlay and expenditure. The large allocation to disease control programmes is more of a historical one. A large health bureaucracy is supported under these programmes. The various national programmes which were started had a huge army of personnel employed for the eradication of communicable diseases like ma-

laria, leprosy, cholera, T B etc. It is to maintain this army of personnel that the major part of the expenditure is incurred (this fact is proved when we examine the detailed breakup of expenditure under each item).

We have analysed the expenditure under each major head—medical, public health and family welfare in Maharashtra during the year 1990-91. Maharashtra spent totally Rs 4,020.79 million on the health sector. 40.01 per cent of the expenditure was on the medical account, 43.94 per cent was spent

TABLE 7: MEDICAL RELIEF, EDUCATION AND DRUGS DEPARTMENT MAHARASHTRA 1990-91 (ACTUALS)

Summary	Per Cent to Totals
1 Medical Relief	
Urban	45.36
Rural	3.55
2 Medical Education, Training and Research	22.10
3 Direction and Administration	0.42
4 Employee State Insurance Scheme	24.62
5 Others	3.35
	100.00
Total (Rs million)	1608.93

Notes: (1) Percentages are to total expenditures. (2) Totals include plan and non-plan expenditures.

Source: Civil Budget Estimates 1992-93 Part B. Medical Education, Drugs Department: Department of Finance, Government of Maharashtra, 1992.

TABLE 6: RATIOS OF EXPENDITURE ON VARIOUS HEALTH PROGRAMMES IN SELECTED STATES

Heads	Year	Punjab	Maharashtra	Kerala	MP	Bihar	All India
Revenue expenditure on health (-water-supply) per capita (in Rs)	1971	7.25	7.64	7.03	4.73	2.88	6.11
	1985	37.36	35.62	36.02	21.69	13.10	31.91
Revenue expenditure on health as per cent of total government expenditure (in per cent)	1971	7.22	5.38	9.16	9.66	6.53	3.84
	1985	7.21	6.31	8.50	6.45	5.42	3.47
Revenue expenditure on curative services per capita (in Rs per capita)	1971	2.59	2.21	4.10	1.40	0.87	2.28
	1985	19.66	8.78	18.87	8.49	6.66	12.02
Curative expenditure as per cent of total health expenditure	1971	35.64	28.92	58.27	29.68	30.31	37.29
	1985	52.62	24.64	52.39	39.13	50.83	37.66
Revenue expenditure on diseases programme, per capita (in Rs)	1971	1.86	1.44	0.05	0.80	0.43	0.83
	1985	4.03	6.89	1.84	2.69	1.59	3.92
Disease programme expenditure as per cent of health expenditure	1971	25.66	18.87	0.76	16.94	15.06	13.63
	1985	10.78	19.35	5.11	12.41	12.14	12.27
FP (-MCH) expenditure as per cent of total health expenditure	1972	12.62	12.04	17.81	13.17	12.97	10.04
	1985	13.12	17.20	14.36	22.00	21.22	16.23
Medical education expenditure as per cent of total health expenditure	1971	7.78	5.72	7.76	5.92	4.33	7.15
	1985	8.32	6.44	9.01	4.53	5.92	8.92
Revenue expenditure on water supply and sanitation per capita (in Rs)	1976	5.98	3.18	1.39	1.32	1.03	1.67
	1985	11.14	17.64	5.40	13.77	3.44	9.02

Sources: State Sector Health Expenditures, [Duggal R and S Nandraj 1991] FRCH, 1992. Original Source CFRA, Comptroller and Auditor General of India, GOI, various years.

on public health programmes and 16.03 per cent was spent on family welfare.

Out of Rs 1,608.93 million on the medical account, 45.36 per cent was expended for urban medical relief, while rural medical relief received only 3.55 per cent. Employees State Insurance Scheme (ESIS) expenditure on its various hospitals and dispensaries (which is only for the organised sector employees) amounts to 24.61 per cent and 22.70 per cent was spent on medical education. Thus it is evident that 85 to 87 per cent of the medical account expenditure is expended for urban areas.

Within the public health account 43.40 per cent of expenditure was incurred on direction and administration, this is in addition to the expenditure on salaries under each programme head. Disease control programmes accounted for 35.23 per cent of total expenditure under public health account. Within the disease control programmes more than half the amount is spent on the malaria control programme, followed by leprosy control programmes. Both these programmes accounted for 80 per cent of the expenditure in the disease control programmes budgets. Out of a total expenditure on malaria of Rs 372.51 millions, 66.66 per cent goes into salaries. In most of the programmes 75 per cent of the expenditure goes into salaries and very little on materials and supplies (which includes expenditure on drugs).

In respect of family welfare services there is priority given to the rural family welfare programme, 23.25 per cent of total FW expenditure as compared to 5.98 per cent in urban areas. Maternal and child health services which is a crucial area is allocated only Rs 119.85 million (18.59 per cent). Here too when we look at the selected programmes, we find that salaries take a major chunk of the expenditure. From the above analysis we infer that the state's

major part of the expenditure on health goes into salaries and for the urban areas.

Private Household Level Expenditure

As mentioned earlier data on private sector expenditure on health is not generally available. There are micro-level studies which give a fair account of the extent of private expenditure. A study undertaken by ICRH on household health expenditure in Jalgaon district of Maharashtra brought out the fact that on an average, a household spends Rs 182.49 per capita per year on health care, which is 7.64 per cent of total consumption expenditure; out of this total per capita expenditure, 68.50 per cent of the

expenditure goes into practitioners' fees and medicines. When viewed in terms of rural urban differences we find that rural households spend Rs 192.19 per capita per year, whereas the urban households spend Rs 170.97. With regard to maternity expenses for each case the average cost was Rs 199.75. The average cost of a delivery was Rs 208.92, of an abortion Rs 300.43 and of a pregnancy Rs 85.17. With regard to rural urban differences, maternity in rural areas cost Rs 235.63 per case and in urban areas Rs 157.39 (Duggal R with Amin S 1989). These findings are comparable with a similar study in two districts of Madhya Pradesh undertaken by ICRH which is presently

TABLE 9: FAMILY WELFARE EXPENDITURE, MAHARASHTRA 1990-91 (ACTUALS)

A Summary		B Expenditures under Selected Services		
			Rural Family Welfare Services	Maternal and Child Health Services
Direction and administration	9.39	Salaries	76.29	43.90
Training	3.41	Travel expenses	4.74	3.34
Rural family welfare services	23.25	Material and supply	1.76	44.70
Urban family welfare services	5.90	Others	17.21	8.03
Maternity and child health services	18.59			
Transport	0.83			
Compensation	17.64			
Mass education	0.95			
Selected area programmes	5.35			
Other services and supplies	13.34			
Other expenditures	1.35			
	100.00		100.00	100.00
Total	644.71	Total	149.89	119.85

Notes: (1) Totals are in rupee millions.
(2) Totals in B are in percentages.
(3) Except total all other figures are in percentages.
(4) B--Travel includes transport and motor vehicles.

Source: Same as for Public Health.

TABLE 8: PUBLIC HEALTH EXPENDITURE, MAHARASHTRA 1990-91 (ACTUALS)

A Summary of Public Health Expenditure		B Expenditure on Prevention and Control of Diseases		C Expenditure under Selected Programmes		Filaria Control	Malaria Control	Cholera Control	Leprosy Control
Direction and administration	43.40	Filaria control programme	5.11	Salaries	74.00	66.66	86.21	78.87	
Training	0.18	Malaria control programme	60.27	Travel expenses	3.65	2.89	3.87	7.91	
Minimum needs programme	19.04	Cholera control programme	3.06	Materials and supply	—	20.53	7.82	4.41	
		Guinea worm control programme	0.31	Others	22.33	9.90	2.08	8.80	
Preventions and control of diseases	34.97	Leprosy control programme	21.06						
Manufacturers of sera and vaccines	0.14	BCG vaccination and TB control programme	10.00						
Public health laboratories	0.91	Goitre control programme	0.04						
Publicity	0.21	Others	0.04						
Other	0.80								
	100.00		100.00		100.00	100.00	100.00	100.00	100.00
Total	1767.13	Total	Rs 617.99	Total	Rs 31.56	372.51	19.03	130.17	

Notes: (1) Totals are in rupee millions.

(2) Except total all other figures are in percentages.

Source: Civil Budget estimates 1992-93, Public Health, Department of Finances, Government of Maharashtra, 1992.

under publication. The average per capita expenditure on health by the households in the above study worked out to Rs 299.16 per year, with 73.85 per cent of the expenditure going into doctors' fees and medicines. The expenditure on health as percentage to total consumption expenditure was 8.44 per cent. In another study undertaken by Kerala Shashtra Sahitya Parishad (KSSP) the per capita per year expenditure on health in rural Kerala was Rs 178.33 [Kannan K P et al 1991]. These above studies show the high cost of expenditure on health borne by the households.

II Regional Variations within Maharashtra

BACKGROUND

The state is presently divided into six administrative divisions, viz. Konkan, Nasik, Pune, Aurangabad, Amravati and Nagpur. The districts comprising of Konkan, Nasik and Pune divisions fall into the older classification of Konkan and southern Maharashtra which are relatively economically better developed, compared to the districts of Aurangabad, Amravati and

Nagpur divisions which come under the Marathwada and Vidarbha regions which are less developed. Sticking to the more popular older regional names is therefore convenient for analysis of variations over a larger geographical area than those covered under the new divisions which are smaller units.

Density of population is the highest in Greater Bombay according to the 1991 Census which is 16,434 persons per sq km. Thane which is developing as a residential suburban district of Bombay comes second—547 persons per sq km with other relatively urban districts such as Pune and Nagpur having 352 and 332 persons per sq km respectively. Greater Bombay has a low decennial population growth rate of 20.21; this is because the residential suburbs of Thane are attracting more of the recent migrants where the growth rate is as high as 55.95. Growth rate is relatively high in the other urban districts of Pune, Nasik, Nagpur and Aurangabad which are fast developing growth centres of the state.

In terms of economic development Greater Bombay ranks highest as per the CMIE index for socio-economic development which is 1,088 points followed by Pune at 175 points and Thane at 165 points.

By and large the districts of Konkan and southern Maharashtra score higher on the CMIE index of economic development whereas in Marathwada and Vidarbha regions it is only the more industrialised and urbanised districts which score relatively higher than the other districts, some of which have scores as low as 42 (Parbhani) and 45 (Osmanabad). As per 1991 Census, percentage of urban population and percentage of non-agricultural workers in total main workers is obviously high in the more industrialised and urbanised districts mentioned already.

Among the infrastructural indicators of development, as far as road transport which is the main form of transport in rural areas is concerned, the Marathwada and Vidarbha regions lag behind while the Konkan and southern Maharashtra are much better off in this regard. Since all villages in Maharashtra are presumably electrified this ceases to be an indicator of variations in development. Without the needed data on domestic consumption of electricity a meaningful comparison between divisions/districts is not possible.

Since the age groupwise data for 1991 Census is not yet available we cannot calculate the exact literacy rate after deducting

TABLE 10: HEALTH INFORMATION AT THE DISTRICT LEVEL

Districts	Governmental Health Infrastructure in Rural Areas (1989)					Endemic Diseases			
	Function- ing SC	Function- ing CHC	Hospitals and Dispen- saries (Govern- ment)	PHC	No of Rural Population Served by		Cholera	Infective Hepatitis	Diarrhoea
					SC	PHC			
Raigad	276	9	3	49	5401.83	30426.65	ME	LE	ME
Ratnagiri	373	10	3	64	3757.02	21896.38	LE	LE	ME
Sindhudurg	246	7	2	36	3120.35	21322.36	LE	LE	LE
Thane	456	13	8	72	4041.74	25597.68	LE	HE	ME
Dhule	309	12	3	69	6504.96	29130.93	LE	HE	HE
Jalgaon	375	13	4	69	6162.08	33489.55	HE	HE	ME
Nasik	577	16	2	85	4296.23	29163.84	HE	HE	ME
Ahmednagar	485	13	1	84	5834.62	33688.01	LE	ME	LE
Pune	496	14	2	78	5471.89	34795.58	HE	HE	HE
Solapur	328	10	2	60	6997.36	38252.25	HE	HE	HE
Kolhapur	368	12	4	53	5948.40	41302.09	ME	HE	LE
Sangli	267	9	--	65	6351.93	26091.77	ME	ME	ME
Satara	306	12	3	63	6958.85	33800.11	ME	ME	LE
Aurangabad	248	7	1	40	5988.39	37128.00	ME	HE	ME
Beed	252	8	2	41	5920.14	36387.20	LE	HE	HE
Jalna	169	5	1	30	6698.38	37734.20	LE	LE	ME
Nanded	331	10	6	52	5501.59	35019.75	HE	HE	HE
Latur	234	8	1	39	5690.21	34141.23	LE	ME	HE
Osmanabad	204	6	1	36	5285.91	29953.50	LE	ME	ME
Parbhani	340	8	1	44	4820.24	37247.27	ME	ME	HE
Akola	326	8	3	48	4836.93	32850.83	ME	ME	ME
Amravati	285	9	4	50	5191.59	29592.06	HE	ME	HE
Buldhana	364	7	5	42	4102.65	35556.31	LE	ME	ME
Yotmal	354	11	5	54	4849.74	31792.76	ME	ME	ME
Bhandara	426	11	6	61	4288.16	29946.85	LE	LE	ME
Chandrapur	276	0	1	58	4611.86	21946.10	HE	LE	LE
Gadchiroli	265	7	1	34	2706.45	21094.41	LE	LE	LE
Nagpur	300	8	6	39	4171.85	32091.13	HE	HE	ME
Wardha	162	5	2	24	4827.60	32586.29	ME	LE	LE
Greater Bombay	—	—	10	—	—	—	—	—	—

Notes: ME = Moderately Endemic, LE = Low Endemic, HE = High Endemic, SC = Subcentre, CHC = Community Health Centre, PHC = Primary Health Centre.

Source: Health Directory, DGHS Government of Maharashtra 1990.



DCM SHRIRAM CONSOLIDATED LTD



Shri Mantosh Sondhi

Ladies & Gentlemen,

On behalf of the Board of Directors and on my behalf, I extend to you all a very warm and cordial welcome to this 4th Annual General Meeting of your Company. The Notice convening the meeting, the Directors' Report and the Audited Accounts for the year ended March 31, 1993, have been with you for some time now and, with your permission, I shall take them as read.

At the outset, I will like to mention that in deference to the sentiments and wishes of our esteemed shareholders, the Annual General Meeting is being held in July, which is 6 weeks in advance of the meeting held last year.

The Economy

It is a matter of gratification that the economic liberalisation programme initiated by the present Government soon after it assumed office in mid-1991, continues purposefully, and with vigour. It did suffer a temporary setback due to the cumulative impact of the scam, the Ayodhya imbroglio and the Bombay blasts, but notwithstanding these and in spite of the somewhat fragile political situation, the unambiguous confirmation of the continuation of the reform process is, in my opinion, the single most important feature of the 1993-94 Union Budget.

The recent reduction in the bank lending rate by 1% is a welcome step, but it does not go far enough. A bank lending rate of 16% when the inflation rate is down to 6% cannot really be justified, more so with the foreign exchange position being reasonably satisfactory, food stocks at an all time high, the monsoon performing well so far, and the rupee holding its own against the major currencies after convertibility on trade account. I am sure that we can rely on the Finance Minister to take a realistic view of the situation and further reduce the interest rate and generally relax the credit policy, even if it means taking a certain amount of calculated risk. This will give industry the opportunity to perform on a level playing field against foreign competitors.

The discussion paper recently released by the Ministry of Finance entitled - "Economic Reforms: Two years after and the task ahead" highlights some key economic issues on which one hopes early

Speech by Shri Mantosh Sondhi, Chairman at the Annual General Meeting of the Company held on July 20, 1993 at New Delhi.

decisions will be taken for speedy implementation. One important issue which normally gets scant attention but which has been highlighted in this paper concerns the Urban Land Ceiling and Regulation Act. This discussion paper states that "The process of industrial restructuring requires large outlays of funds which are presently blocked in land held by many concerned units. The ULCR Act has to be suitably amended to facilitate the use of these blocked resources for productive restructuring."

I hope the Government will be able to push through with expedition the related legislative measures which, as we are aware, have been on the anvil for a long time.

Similarly, induction of the private sector in infrastructure areas so that a greater share of governmental resources can be diverted to primary education, basic health facilities, child care, women's welfare etc., is a measure which is long overdue and requires immediate attention.

Review of Operations

During the year ended March 31, 1993, sales of your Company were higher at Rs. 434.71 crores as against Rs. 405.16 crores last year. The gross profit rose from Rs. 13.47 crores to Rs. 22.17 crores and the net profit was up from Rs. 6.29 crores in 1991-92 to Rs. 7.74 crores in 1992-93. All the units contributed to this improved performance. With better results, your Board of Directors has recommended a higher dividend of 25 per cent on equity shares, as against 20 per cent in the previous year.

A. Fertilisers

The operations of the Fertiliser Division further improved during the year. As a result of modernisation and upgradation programmes, productivity of the plant improved and 3,58,432 tonnes of urea were produced giving a capacity utilisation of 108.6 per cent. Efforts are continuing to increase production, improve safety standards and conserve energy.

As I pointed out last year, prices, distribution and movement of phosphatic and potassic fertilisers were decontrolled, but urea, which is produced by your Company, continues to be under price control. The system of retention prices and of subsidy continues. Unfortunately, there has been inordinate delay in the disbursement of subsidy, as a result of which the interest burden has reached an alarming proportion. In the case of your Company, this delay has resulted in an additional interest burden of approximately Rs. 5 crores. In order to improve the viability of the industry and in order to encourage modernisation and expansion of existing units, the Government must clear subsidy arrears speedily. The resource crunch should not be an excuse for burdening the industry with this unwarranted interest charge. There should be a time limit for disbursement of subsidy so that the industry can plan its operations in a systematic manner for optimal utilisation of its capacity.

B. Plastics & Chemicals

The working of PVC plant remained satisfactory and during the year, 33,605 M.T. of PVC Resins/Compounds was produced which was 101.8 per cent of capacity, in spite of severe competition from dumping. This resulted in unremunerative prices. On representation by the industry, anti-dumping duty was subsequently imposed by the Government. To improve the profitability of your Company, the focus is to increase production of value-added grades of PVC, including compounds. For this, a technical collaboration agreement has been signed with a Japanese Company. With better market conditions, working of the PVC Division is expected to improve during the current year.

The operations of the Caustic Soda plant also improved with the installation of new control systems. During the year, 41,224 tonnes of Caustic Soda were produced; this is 124.9 per cent of rated capacity. However, in the second half of the financial year, profitability was affected due to a slump in the Caustic Soda market.

C. Power

PVC and caustic soda are power-intensive industries, but there is great uncertainty about the availability of power from the Rajasthan State Electricity Board. It is a matter of tremendous satisfaction that our captive power plant achieved a PLF of 91%, as against the national average of 57%. For the future, a project to set up additional capacity of 17 MW has already been taken in hand; this is expected to become operational by the end of the next financial year. If need be, the capacity of this plant can be increased to 30 MW in the second phase.

In this context, one cannot help commenting on the abysmally poor performance of the SEBs generally with a few exceptions. I understand that annual losses of SEBs on revenue account exceeds Rs. 5,000 crores. Apart from the technical problems, managerial failures are the root cause of this malaise which, as pointed out by many, has "emerged as the single most severe bottleneck for the development of agriculture, industry and exports". Why the State Governments cannot be forced to take effective steps to overcome this malaise, particularly in the context of the present resource crunch, is difficult to comprehend.

D. Cement

The cement industry is experiencing a serious demand recession, essentially due to a cutback in Government offtake and lack of resources with the housebuilders. However, your plant continued to perform well. Shriram "43 Grade" Cement has become a premium brand cement in the market, which is superior to "33 Grade" cement being marketed by almost all other cement manufacturers. To conserve energy and to reduce the cost of production, the viability of converting the existing wet process into dry process is being seriously looked at.

E. Textiles

During the year under review, yarn production increased substantially to 5,242 tonnes from 3,402 tonnes in the previous financial year. Modernisation and restructuring is progressing as per plans. As a result of these schemes and the overwhelming response of employees to the Voluntary Retirement Scheme, there has been considerable improvement in textile operations with much lower losses.

Environment

As a responsible corporate citizen, DSCL is very conscious of its social obligations to continue to improve environment. In this direction, Shriram Environment & Research Centre has been set up to carry out research and development work in the field of environment, not only for the Company but also to provide consultancy service to small and medium-scale chemical and processing units.

Rights Issue

The Rights Issue of PCDA/NCDs in October last year received your overwhelming response and was oversubscribed. Your confidence in the Company has given us tremendous strength to plan new projects and fresh investments. Equity shares on conversion of PCDA have been allotted on June 11, 1993. These shares have since been listed and will rank for pro-rata dividend for the current financial year.

New Business Development

The Management is seized of the opportunities created by liberal economic policies. The Fertiliser Division has embarked upon trading of agro-inputs such as DAP, seeds and pesticides, making use of the marketing resources of the Fertiliser Division. For Seeds Business, a Joint Venture Agreement was entered into with M/s Bioseeds Genetics International Inc. (BIOSEED), USA. To implement the project, a separate Company will be formed subject to your approval and of the Government. BIOSEED will provide the basic genetic material to the new Company for production/multiplication of Hybrid Seeds for sale to the farmers. All India marketing arrangements will be handled exclusively by your Company.

As mentioned in the Directors' Report, the Company also plans to set up Aqua Culture and Granite Projects as Export Oriented Units. In the case of Aqua Culture Project, land acquisition is now in full swing and the transactions are expected to be completed by October, 1993. Detailed discussions have been initiated with some of the most reputed consultants in the field to finalise collaboration for technology and engineering. In the case of Granite Project, acquisition of mines is being explored.

Industrial Relations

The Company continued to maintain harmonious and cordial relations with its workers in all its Divisions, which enabled it to achieve higher performance levels on all fronts.

Human Resource Development

Companies the world over recognise the management, training and development of their human resources as the single major contributor to corporate growth, innovativeness, dynamism and prosperity. Your Company has consciously promoted training inputs for all its employees.

Prospects for the Current Year

In the first three months of the current financial year i.e. April to June 1993, operations of your Company continue to be satisfactory, and, but for any unforeseen circumstances, the year should end on a satisfactory note both in terms of sales and profitability.

Acknowledgement

Ladies and Gentlemen, it is with a great deal of pleasure that I wish to inform you that the Board of Directors of your Company at their meeting held on 15.4.1993 decided to promote Shri Ajay S. Shriram as Vice-Chairman & Managing Director and Shri Vikram S. Shriram as the Joint Managing Director. This is in recognition of the very competent and highly professional manner in which they have handled the affairs of the Company in the last 3 years. Lastly, the Directors wish to thank the Government authorities, financial institutions, bankers, other business associates and shareholders for the co-operation and encouragement extended to the Company. The Directors also place on record their deep appreciation for the contribution made by the employees at all levels.

Thank you.

Note: This does not purport to be a record of the proceedings of the Annual General Meeting

the 0-6 years from the total population, which was the practice followed in the 1981 Census. However we arrived at the 0-6 age group by extrapolating from the 1981 figures on the basis of the overall decennial population growth and divided the total number of literates by the total population minus the extrapolated sum of 0-6 age group which revealed that there is a relatively higher percentage of literacy in most of the districts of Konkan, Nasik, Pune, Amravati and Nagpur divisions as against those in Aurangabad division. Districts of Jalna, Parbhani, Beed and Nanded in Aurangabad have literacy rate of only 45.50 per cent. In Gadchiroli in Nagpur division it is even lower at 42.87 per cent. Female literacy is the lowest in many of the districts of Aurangabad division and Gadchiroli where it ranges between 26 per cent to 30 per cent only.

According to 1991 Census nearly 40 per cent or above of main workers were agricultural labourers in all districts of Amravati division, Parbhani, Nanded, Osmanabad and Latur in Aurangabad division, Wardha in Nagpur division and Ahmednagar in Nasik division. The picture of landless or marginally landed agricultural labour becomes clear when we find that the average size of holdings is almost uniformly higher in the districts of the old Marathwada and Vidarbha regions.

When we add up the scheduled caste and neo-Buddhist population Marathwada and Vidarbha have a larger dalit population than other regions. Scheduled tribes are concentrated more in Dhule, Gadchiroli, Nasik, Thane, Yavatmal and Chandrapur districts which also have higher percentage of land area under forests.

Analysis of sex ratio shows that in the districts such as Ratnagiri, Raigad, Sindhudurg which are closer to the Bombay-Thane industrial belt, females are higher in number. This is largely due to male out-migration to the Bombay-Thane belt for employment. It is again male in-migration which is responsible for the low sex ratio of Greater Bombay and Thane districts. This phenomenon seems to be the reason for a sex ratio favourable to females in Satara and its reverse in nearby Pune.

Female participation in agricultural labour as per the 1991 Census is higher than that of men in all districts of Maharashtra. This is true of India as a whole also. It is however particularly higher in the districts of Marathwada and Vidarbha regions and Dhule and Jalgaon in Nasik division.

HEALTH AT DISTRICT LEVEL

Data on health indicators is not available at the district level. Even though information on health services is available, this covers only the government health sector, with nearly no information on the private sector which according to various studies caters to a little over 75 per cent of our health care needs [Duggal and Amin 1989 and FRCH Report (forthcoming) 1992]. All the same we find that there seem to be a bias

against Marathwada and Vidarbha regions in setting up PHCs. While 14 of the 16 districts in these regions have PHC population ratios very close to or above 1:30,000, the number of such districts is limited to seven out of 14 districts in Konkan and Marathwada. Such a clear pattern was however not observed in the case of subcentres. As regards the endemicity of certain diseases such as cholera, hepatitis and diarrhoea for which district level data is available no definite pattern is seen across the districts.

HEALTH STATUS OF TRIBAL POCKETS

Tribal areas are supposed to have one PHC per 20,000 population and one sub-centre per 3,000 population. As per these norms Maharashtra requires 265 PHCs in tribal pockets and claims to have fulfilled this norm by setting up the required number as on December 31, 1991. Madhya Pradesh needs 752 PHCs in tribal areas while it has only 633. Kerala requires 55 tribal PHCs and has 58. Maharashtra similarly needs 1,662 subcentres in tribal areas but have in position 1,603 as on December 31, 1991. MP needs 5,019 sub centres but has 4,935, while Kerala needs 369 sub centres and has 174 only [Rural Health Bulletin March 1992].

HEALTH OF WOMEN

With regard to the health of women, enough data is not available on the morbidity and mortality. Recently a study carried

out in two villages of Gadchiroli district of Maharashtra showed, on examination of the women that as high as 92 per cent of them had one or more gynaecological or sexually transmitted diseases, and the average was 3.6 diseases per woman. Only 8 per cent of the women had ever undergone examination or treatment in the past. The study also found that there was a high prevalence of iron deficiency anemia in 83 per cent and vitamin A deficiency in 58 per cent of the women examined [Bang R et al 1989].

The abovementioned study brings out the stark reality of majority of the Indian women having a low social status, marginal presence in the market economy and not enough attention being paid to women's needs, particularly in health. It has been recognised that women face health problems throughout their life cycle, starting from sex preferences in infancy, discrimination in feeding practices, biological vulnerability during the reproductive period, the effects of repeated pregnancies, to special problems such as nutritional anemia and maternal mortality [WHO 1978]. The only programmes which are women oriented are maternal and child health services and family planning, where they are viewed as 'targets'. Manisha Gupte gives an experiential account of the problems that child bearing women in a drought prone area in Maharashtra face. The various impediments to women may be listed as follows: lack of facilities like trained health functionaries attending women during pregnancy and labour, ante-natal care (ANC) services, trans-

TABLE II: GROWTH OF PRIVATE HEALTH SECTOR IN INDIA

Heads	Across Years	
Practitioners	(1942-43)	(1990)
All systems	72.6 per cent	85 per cent to 87 per cent*
Medical colleges	(1950)	(1986)
Allopathy	3.57 per cent	17 per cent
Ayurvedic	—	55 per cent
Unani	—	64.7 per cent
Homeopathy	—	75.2 per cent
	(1974)	(1988)
Hospitals	18.6 per cent	55.9 per cent
Dispensaries (1981)	13.8 per cent	49.4 per cent
Beds	21.5 per cent	29.9 per cent
Drug production	(1974)	(1984)
Bulk drugs	64.9 per cent	79.4 per cent
Formulations	95 per cent	93.3 (1980)
Imports of medical equipment	(1977-78)	(1986-87)
	941.20 lakhs	6500 lakhs

Sources: Bhore Committee (1946), *Report of the Health Survey and Development Committees*, Vol IV, summary, New Delhi, Government of India.

* Estimated in 'Private Sector and Privatisation in the Health Care Services', Dr Jeonani A with Ananthram S, FRCH, August 1990.

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port facilities, competence at referral centres, availability of a sterile delivery kit, access to health care facilities (this is applicable for most of the women), safe abortion facilities, rest before and after delivery, maternity benefits and finally lack of nourishment [Gupte M 1989]. The various programmes which are there in the government health sector, aim at only the women between the age group of 15-45 years. Most of the women who do not fall in this category get deprived of the health facilities. In this context it is necessary to reassess the existing health system and programmes with special reference to women.

III

Impact of Drought on Health

Around 29,000 villages in the state comprising 62 per cent of the population and spread out in 26 districts were affected by the drought of 1992 [Sharma K 1992]. Near famine conditions were prevailing in most of these districts in varying degrees, but it was most acute in Marathwada and Vidarbha regions [Venkateshian V 1992]. It has not only created severe shortage of drinking water, but has affected the entire flora and fauna of vast stretches of land and upset agricultural activity, thus drastically reducing the availability of both food and employment opportunities.

While the direct impact of drought on health can be seen in the reported incidents of spread of contagious diseases such as cholera and gastro-enteritis [Ghaswala S 1992]. The indirect impact on health caused by the decline in food production and employment opportunities is especially important. Fetching water itself was taking away a considerable part of people's time since they had to walk for miles or stand in queues for the arrival of the elusive tanker [ibid]. In several places people had to resort to digging pits on river beds and drink the dirty water. According to an estimate made by *The Economic Times* in May 1992 food output in Maharashtra in 1991-92 is likely to decline from 12 million tonnes in 1990-91 to 7.9 million tonnes, i.e., a decrease of 34 per cent [Gangadharan S 1992].

Another report in *The Economic Times* indicated a shortfall in foodgrains production of 43 per cent in kharif and 67 per cent in rabi [The Economic Times; March 26, 1992]. With the price of ration wheat and rice also increased this decline in production is sure to have hiked prices of the foodgrains in rural areas, thus lowering the food intake and nutritional levels of people. Add to this the contraction of purchasing power caused by the decline in rural employment and we get the true picture of the rural populace being squeezed at both the demand and supply ends of the market spectrum. The 'market' of course is drought proof.

The lack of employment in many districts have forced people to migrate to places where work is available. For example there has been an increase of 35 per cent in

migration from Beed to Ahmednagar during the sugar-cane cutting season. But even in Ahmednagar there was not enough work for so many and therefore they ended up bonded to the contractors from whom they had taken advances. A survey conducted by an NGO among these migrants revealed that 43 per cent migrant families had at least one person fallen ill during the period of stay at the new workplace. Even minimum hygienic conditions could not be met at the places where they had migrated to [Agashe A 1992].

The almost decennial occurrence of drought had generated a lively discussion in the press and among the academics on the causes of drought and how it could be prevented. There was a general consensus that there should be a move away from sugar-cane cultivation which consumes 60 per cent to 70 per cent of irrigation water and also that the practice of tube-well irrigation should be stopped since it was lowering the water table, thereby depriving the soil of its natural moisture and making it so much more difficult to get recharged. Other suggestions were for proper programmes for water harvesting, using small check dams in place of the mega dams, afforestation and soil conservation.

IV

Current Issues

PRIVATE HEALTH SECTOR

One of the main issues which concerns the health system in the country is the role and functioning of the private health sector. In the new lexicography of Indian economics, privatisation is the panacea for all ills of the Indian economy. In the field of health, private sector is already the dominant sector and there is talk of privatising it further [Phadke A 1991]. With regard to Maharashtra recently a statement was made by the chief minister [The Times of India, September 2, 1992] that for the efficient functioning of public health services the government is planning to hand over some primary health centres to the private sector.

Here we have used largely the available data at the all-India level since we do not have much on the state-level. Broadly, the private health sector consists of the general practitioners, who include licenciates and RMPs, consultant specialists, hospitals and dispensaries. It includes also private medical colleges, pharmaceutical and medical equipment manufacturing industry which are predominantly multinational. There are also the laboratories which carry out tests right from blood testing to CAT scans. In India the share of this sector is between 4 and 5 per cent of GDP. This share at today's prices works out to between Rs 16,000 crore and Rs 20,000 crore per year [Duggal R and Nandraj S 1991].

As regards utilisation of health facilities, in the household health expenditure study in Jalgaon, Maharashtra, it was found that nearly three-fourths of the illness episodes

were treated by private practitioners and hospitals, and only 13 per cent of the illness episodes availed of government facilities. The utilisation pattern also showed that private practitioner utilisation is more in rural areas (79.82 per cent) as compared to urban areas (73.45 per cent) [Duggal R 1989]. In the household health expenditure study conducted in two districts of Madhya Pradesh it was found that private sector utilisation was 69.05 per cent of the illness episodes, 6.94 per cent government hospitals, 6.88 per cent primary health centres and 1.73 per cent subcentres. In Kerala in case of acute illness only 23 per cent of the patients went to government health institutions for treatment and 66 per cent to private health providers [Kannan et al 1991].

The growth of this sector after independence has been at a very fast pace. This growth has been unregulated and unaccounted leading to maldistribution, irrational and unethical practices, and decline in standards of care. General practitioners are the most dominant sub-sector in the provision of health care services. They include practitioners trained in other systems, but mostly practising allopathy. Also, various studies have brought out the irrational use of drugs among them which is very rampant. The use of unnecessary injections is quite well known, so much so that patients have come to expect the doctor to give them injections. Other common irrational practices are the unnecessary tests recommended and unnecessary surgery. The KSSP study brought out the finding that a higher proportion of births in private hospitals are by caesarean section compared to government hospitals. Though practitioners are permitted to dispense medicine, ethically they are not supposed to make profit from it. Not only do the private practitioners run a drug business of their own, taking perhaps a higher profit rate than the medical stores, they also put to use their professional monopoly over medical knowledge to sustain themselves in the business. In a study done in Bombay it was found that on an average the monthly median income of a GP was as high as Rs 16,560 [George A 1991]. Therefore standardisation of fees at least is possible, even ensuring a reasonable standard of income to the doctors.

The number of medical colleges has grown in spite of the Planning Commission and various committees calling for a halt to the out-turn of medical graduates in the country. Private medical colleges continue to mushroom all over the country and especially in Maharashtra. Many of them exist due to the political patronage they receive. Barring a few, many of the medical colleges do not have the qualified staff, equipment or hospital services to train medical graduates and are not even recognised by the Indian Medical Council. These are mainly run as business units. Education in these institutions is looked at more as a lucrative investment.

With regard to hospitals and dispensaries, majority of them are the small nursing homes with bed capacity ranging from five

to 30 beds. These are run from residential apartments, operate in unhygienic conditions, without basic amenities like water, proper ventilation, minimum equipment, qualified staff, lack of proper sanitation facilities, etc [Duggal R and Nandraj S 1991]. Recently in the premier city of Bombay the high court appointed a committee to go into the functioning of the hospitals/nursing homes when it found that they were functioning in an unregulated manner.

Another important development in the private health sector is the entry of the corporate sector. There is rapid proliferation of corporate medical centres. The trend was started by Apollo Hospitals in 1983. Initially it made a loss, but in 1988 it declared a profit of Rs 167 lakh and declared a dividend of 15 per cent [CMIE 1989]. Presently there are many business houses entering this field.

The private sector plays a very dominant role in the drug production of the country. Many of the socially conscious organisations in the last one decade have brought out that majority of the drugs produced in the country are hazardous, useless, unnecessary and irrational. An overwhelming proportion of the drug business is in Maharashtra, especially in and around Bombay.

The production of medical equipment began in the 1970s and it has grown from Rs 2.5 crore in the earlier years to Rs 19 crore in 1983 [CEI undated]. It is estimated that 80 per cent of all medical equipment is imported through the private companies [Baru R V 1988]. The increasing demand for hi-tech medical equipment can be gauged from the estimates made by Confederation of Engineering Industries (CEI), working group in electronics for the seventh plan, which would be to the tune of Rs 900 crore for the plan period. This is against the background that millions of people in India have no access to basic health care. This high technology in medicine only leads to over-medicalisation and high cost medical care. Broadly, in the changing scenario of the economy people will have to raise issues of the efficiency of the private health sector, demand more accountability, standardisation of fees, regulating the quantity and quality of medical service in the country.

ROLE OF NGOS

NGOs have undertaken numerous activities in providing health care services all over the country. They have experimented and come out with innovative projects and models of health care delivery system. We appreciate the work done by them in trying to meet the health care needs of the people. At this particular juncture it is necessary to critically examine the work done so that we are able to address ourselves to the various issues raised below and have a meaningful discussion on the health status of people in Maharashtra vis-a-vis role of NGOs.

First and the foremost, NGOs and the government have never examined nor ques-

tioned the growth, role and functioning of the private health sector. They have tried to wish it away. In many of the areas where NGOs are operating we find the private practitioners thriving. The NGOs have in fact weaned away the clientele from the government health sector and not from the private health sector. The role and functioning of the private health sector which is the dominant sector in the health field has to be evaluated, particularly in the context of the present trend of liberalisation and privatisation in the country. NGOs will have to wake themselves up to the fact of the growing predominance of the private health sector, when the government itself has become all the more keen to patronise them.

Secondly, the primary health care model which has been implemented by many of

the NGOs needs certain basic clarifications in terms of approaches and results that has to be achieved. Though they have demonstrated that they can effectively provide specific programmes to a limited population effectively, including reaching out to the underserved and the underprivileged groups, there is no evidence of either change or people's participation, which NGOs are never tired of talking about [Duggal R 1988]. In this connection it is important to state that many of us have always talked about primary health care but never of an universal health care for the people.

Many NGOs in recent years have pronounced that people are willing to pay for their services. This has been used by the government to push fee-for-service in the

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government health sector. In spite of people paying in the form of taxes, they are forced to pay fees in the private sector due to the non-availability of curative health services from the public sector, especially in the rural areas. The fees which are being paid comes out more often from the food expenditure of the household. While the poor people in the country are already under stress due to rising prices, is it justified that people should pay fees for the health services also? In this connection it needs to be pointed out that an otherwise progressive organisation like the KSSP has now started advocating for user charges on the justification that with more resources the quality of health care can be improved. The public disapproval of this suggestion was seen in the large demonstrations and signature campaign against it when it was actually implemented by the present state government.

In recent years the trend of the government is to contract out health services to the NGOs. The government accepts the fact that their own health services are inefficient, bureaucratic and not able to provide services, etc. It has handed over to the NGOs the management of certain specific programmes and the administration of some primary health centres to name a few. Are the NGOs right in taking this approach? Is it not proper that NGOs pressurise the government in providing more funds to the health sector and make it more efficient, decentralised and have an effective policy on health care. Along with this is the major question of the role and impact of the NGOs on the health sector. Most of the NGOs' work has been of a demonstrative nature rather than providing any large-scale impact on the state or national level. The state has of course picked up some of these demonstrations which it found convenient. Have the NGOs developed the social and political consciousness of the people in raising issues related to health? If NGOs come together, they will have the potential to demand the provision of universal health care services as a constitutional right of the people, which should be provided by the government adequately on a priority basis.

V

Conclusions

Maharashtra presents a picture of moderate achievement in the field of health care against the context of remarkable economic development. However this overall picture has to be juxtaposed against the severe rural-urban and intra-regional disparities to arrive at a more realistic understanding of the situation, both in terms of health care as well as economic development in general. The lack of proper curative facilities in the rural areas also form a piece with this overall pattern of disparities. The correction of such disparities will demand conscious political action beyond the level of clientelistic politics which has enveloped the state for the last several decades. The inheritors of the radical traditions of the non-brahmin and dalit movements and the

radical sections of the industrial labour movement can be expected to take up this corrective role some time in the future. But the awareness of these very sections on health issues has to be kindled. This is one area where NGOs should apply their mind to. For, on their own, the outreach or impact of NGOs is not very large.

This is all the more necessary in combating the evils caused by the rapid and unregulated growth of private health sector in Maharashtra. Bombay with its large middle class social base offers a flourishing field for the capitalists and those who hold state power to advance all kinds of pro-market ideas which with the apparent legitimacy of public opinion can be thrown back to the rural hinterland for operation through their clients. Thus, it is not just sufficient that the private health sector should be encouraged in the urban areas, some of the PLC's also should go to the private sector messiahs. But would these messiahs attend to the preventive and promotive aspects of health care which are not very lucrative? Even in curative care will they not introduce dual standards with the full legitimacy of the state? These are some questions to be addressed.

The broadest possible platforms should be created for bringing in some amount of regulation in the chaotic growth of the private health sector. Standardisation in fees, room-charges, equipment and other facilities have to be thought of. NGOs which have a good grasp of the technical details in this regard should take a lead in educating even the otherwise sensitive sections of public opinion about this matter.

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Sectoral Targets of the Eighth Plan

Some Implications

Ravindra H Dholakia

The paper examines critically the implications of the sectoral targets of income and employment growth coupled with the investment allocations as envisaged in India's Eighth Five-Year Plan. The implications are worked out on the labour income per unit of investment, required economic rate of return on project investments and the rate of total factor productivity growth by sectors.

UNLIKE the Seventh Five-Year Plan document, the Eighth Plan document is much less transparent in terms of methodology, assumptions made and critical estimation of aggregates used. It makes the task of examining critically the plan targets more difficult. On the one hand, it is supposed to be only an indicative plan, but on the other hand, it is based on 60 sector input-output consistency model [Planning Commission 1992: 67]. The details of the model are not available so far. Although the growth of employment and income and cumulative investment by seven major sectors over 1992-97 are given in the Plan, the initial structure of employment and stock of capital among those sectors is not given in the Plan. Since official estimates of the stock of capital were not available in published form when the Seventh Plan was prepared, it did not report the estimates of initial capital stock either at the aggregate level or at sectoral level. However, the Seventh Plan did report the sectoral break-up of the initial estimates of employment by sectors along with the growth rates targeted over the plan period. Since the Eighth Plan does not report all these details about the targets at sectoral/aggregate level, it arouses some suspicion.

In the present paper, an attempt is made to derive implications of the sectoral targets of the plan on the economic rate of return and labour income generation required to be achieved on projects/schemes to be undertaken during the plan period. In the next section, we briefly discuss the sectoral targets given in the plan. The second section describes the methodology and the minimum information required to derive the implications of the plan targets on the economic rate of return and labour income generation by sectors. In the final section, results of our exercise are discussed.

I Sectoral Targets

The plan provides sectoral targets of growth of employment and income (GDP

at factor cost) and cumulative investment at 1991-92 constant prices [Planning Commission 1992: 55 and 56]. It is assumed that the growth of income at 1991-92 prices over the plan period would be the same when measured at market prices as the one measured at factor cost [Ibid: 43]. Since the investments are always at market prices, the income growth estimates at market prices would be more relevant. The plan does not provide such estimates nor does it mention explicitly anywhere whether the sectoral growth targets would be different at market prices from the ones at factor cost. The implicit assumption of the equality of growth rates of income at market prices with the one at factor cost at aggregate level is discernible from the table on macro aggregates for the Eighth Plan in its Chapter 3. This is one of the few places where the initial and terminal values of the macro aggregates are given in the plan. Unfortunately, the GDP estimates for the year 1991-92 do not tally with the quick estimates produced by the CSO (1993). The plan document (p 54) gives sectoral shares of the estimates of GDP it is using. We may, therefore, use the latest available estimates of GDP prepared by CSO (1993) for the year 1991-92 as well as the estimates used by the Planning Commission. Table 1 provides the sectoral targets of the Eighth Plan.

It can be seen from the table that the plan provides for positive growth of labour productivity in all sectors except construction in which zero growth is targeted. Maximum growth of labour productivity is targeted in the electricity, gas and water supply (3.9 per cent) and manufacturing (3.6 per cent) sectors. With the target growth of aggregate income at 5.6 per cent pa and employment at 2.6 per cent, the labour productivity growth on an average is targeted at 3 per cent pa. In all sectors other than manufacturing and electricity, gas and water supply, the growth of labour productivity would be less than the average of 3 per cent pa.

Moreover, the sectoral growth targets applied to the CSO (1993) estimates of

GDP for the base year implies an aggregate growth of total GDP to be 5.4 per cent pa and not 5.6 per cent pa as targeted in the plan. This happens because, as is clear from Table 1 the CSO's (1993) quick estimates for the initial year 1991-92 differ considerably from the Eighth Plan forecast estimates for which the methodology is not reported explicitly in the plan. Thus, the implication of the sectoral growth with more recent and realistic estimates of income across sectors is to reduce the overall growth of income, though marginally. However, investment target remaining the same, it implies lower investment rate from 23.2 per cent to 22.3 per cent. If the target of saving rate is achieved, this would imply a much lower dependence on the foreign savings. Alternatively, either the effort to raise the domestic savings may not be required to the extent envisaged in the plan or the sectoral investment targets may be revised. In any case, minor revisions in the plan target regarding savings and investments have become necessary. However, in order to derive the implications of the plan targets on the rates of return, we may assume the absolute investment targets to remain unchanged.

II Methodology

Let us assume an aggregate production function of income (Y) in capital (K), labour (L) and time (t): $Y = f(K, L, t)$. Taking first differential with respect to K on both sides, we have $dY/dK = f_L (dL/dK) + f_K + f_t (dt/dK)$ (1) where f_L , f_K and f_t are partial derivatives of Y with respect to L, K and t respectively. Now dY/dK is the incremental output-capital ratio which is the reciprocal of the ICOR. The Eighth Plan assumes an ICOR of 4.1. The first term on the right-hand side of equation (1) can be interpreted as the incremental labour income per unit of investment during the plan period. Although no explicit targets are mentioned on this important parameter in the plan, we can derive its estimate if we have some

idea about the relative share of labour. This is because it can be shown that $f_L (dL/dK) = R_L (GL/s)$ (2) where R_L is relative share of labour; GL is the annual growth rate of employment and s is the average investment rate over the plan period obtained as a ratio of total investment to the total cumulative income over the plan period. The same framework and equations can be used to generate sectoral estimates.

The sectoral ICORs which are not given in the plan, can be generated by

$$ICOR = s/GY \quad (3)$$

where GY is the annual growth of income. From the sectoral ICOR, we can obtain the estimates of the sectoral dY/dK as the reciprocal.

The second term on the right-hand side of equation (1) above, viz, f_K is the marginal product of capital. The third and the last term in the equation (1) can be interpreted as the technology return per unit of investment. At the micro level where we consider individual projects, these two terms together provide an estimate of the economic rate of return (ERR) on the project investment. Thus, the required ERR to achieve the plan targets can be obtained as

$$ERR = (dY/dK) - R_L (GL/s) \quad (4)$$

Moreover, if we have an estimate for the marginal product of capital (f_K), it is possible to obtain the implied estimate of the 'residual' or the rate of technical progress or the rate of total factor productivity growth (TFPG) in the system. This is because

$$ERR - f_K = f_L (dt/dK) = r/s \quad (5)$$

$$\text{ie, } r = s(ERR - f_K)$$

where r is the rate of TFPG.

The TFPG estimates can be derived on the basis of the classical theorem that the marginal product of capital in the economy is given by the long-run rate of growth of income. This theorem is based on the assumptions that (i) all profits are saved and all wages are consumed; and (ii) average capital-output ratio remains constant over time. In practice, these assumptions may not hold. If we consider more realistic situations, the marginal product of capital is likely to be higher and hence the TFPG would be lower than the ones based on these assumption. Moreover, since capital on margin is fully mobile, we may assume the same marginal product across the sectors. Thus, the minimum required information to derive the rate of return implications of the plan targets is on the relative factor shares in each of the sector of the economy. Unfortunately, these estimates are not officially available. CSO used to publish the estimates on functional distribution of income by sectors along

TABLE 1: SECTORAL TARGETS OF INDIA'S EIGHTH FIVE-YEAR PLAN

Sectors	Annual Growth Rates (in Per Cent)		Investment at 1991-92 Prices (in Rs crore)		GDP in 1991-92 at Current Prices (in Rs crore)	
	Employ- ment	GDP at 1991-92 Prices	Total	Private	At Factor Cost	At Market Prices
1	2	3	4	5	6	7
(1) Agriculture	1.6	3.1	148800	96800	174337 (143962)	196089 (161313)
(2) Mining and quarrying	6.8	8.0	39600	11100	11363 (10394)	12781 (11647)
(3) Manufacturing	3.7	7.3	188400	141300	96247 (111739)	108256 (125207)
(4) Construction	4.7	4.7	20540	17240	31331 (26505)	35240 (29700)
(5) Electricity, gas and water supply	3.9	7.8	102120	10120	12206 (12474)	13729 (13977)
(6) Transport and communi- cation	3.9	6.6	113910	39710	41185 (36900)	46324 (41347)
(7) Other sectors	4.2	6.0	184630	120730	175219 (177743)	197081 (199166)
Total	2.6	5.6	798000	437000	541888 (519716)	609500 (582356)

Note: The GDP estimates are based on CSO (1993). However, figures in parentheses are the estimates of GDP derivable from the Plan (pp 43 and 54).

Sources: (1) Planning Commission (1992), pp 43, 54-56.

(2) CSO (1993), Col 7 is derived by assuming the same structure as in Col 6.

TABLE 2: IMPLICATIONS OF THE SECTORAL TARGETS OF EIGHTH PLAN

Sectors	Ratio of Investment to Cumulative GDP	ICOR	Relative Share of Labour	Incre- mental Capital Pro- ductivity (in Per Cent)	Incre- mental Labour Income Per Unit of Investment (in Per Cent)	Economic Rate of Return (in Per Cent)	Rate of Total Factor Pro- ductivity Growth (in Per Cent)
1	2	3	4	5	6	7	8
(1) Agriculture	0.13836 (0.16817)	4.46 (5.43)	0.6	22.41 (18.43)	6.94 (5.71)	15.47 (12.72)	1.4 (1.2)
(2) Mining and quarrying	0.48901 (0.53662)	6.11 (6.71)	0.4	16.36 (14.91)	5.56 (5.07)	10.80 (9.84)	2.6 (2.3)
(3) Manufacturing	0.28035 (0.24240)	3.84 (3.32)	0.6	26.04 (30.12)	7.87 (9.16)	18.17 (20.96)	3.6 (3.7)
(4) Construction	0.10135 (0.12026)	2.16 (2.56)	0.8	46.37 (39.08)	37.10 (31.27)	9.27 (7.81)	0.4 (0.3)
(5) Electricity, gas and water supply	1.18086 (1.15991)	15.14 (14.87)	0.5	6.61 (6.73)	1.65 (1.68)	4.95 (5.05)	(-0.5) (-0.6)
(6) Transport and communication	0.40433 (0.45301)	6.13 (6.86)	0.8	16.32 (14.57)	7.72 (6.89)	8.60 (7.68)	1.3 (0.9)
(7) Other sectors	0.15678 (0.15514)	2.61 (2.59)	0.8	38.27 (38.68)	21.43 (21.66)	16.84 (17.02)	1.8 (1.8)
Total	0.22309 (0.23224)	4.13 (4.15)	0.7	24.21 (24.11)	8.16 (7.84)	16.05 (16.27)	2.4 (2.5)

Note: The estimates in the table are based on the CSO (1993) quick estimates of GDP for the year 1991-92. However, figures in parentheses are the estimates based on the Planning Commission's estimates of GDP for the year 1991-92.

Sources: (1) Table 1 and Section 3 in the text.

(2) Col 4 is approximated based on a study on sectoral factor shares carried out by B H Dholakia at IIM, Ahmedabad. The basic sources used here are: CSO (1987) and Dholakia and Dholakia (1991).

with the national accounts statistics. However, after 1987, CSO has stopped providing even these estimates. Since the factor shares are relatively more stable and have a reasonably narrow range of plausible values, we can use a single decimal value of relative share of labour approximated from the 1984-85 CSO estimates of the income shares by sectors. These estimates are provided along with other results in Table 2.

III

Results and Implications

From Table 2 it can be seen that productivity of investment (dY/dK) varies considerably across sectors from as high as 46.37 per cent in construction to as low as 6.61 per cent in electricity, gas and water supply. What is surprising is that the ICOR in agriculture is taken to be distinctly higher than in manufacturing sector. The labour income per unit of investment and the economic rate of return (ERR) required to achieve the plan targets are also considerably different in different sectors. The target of labour income as a proportion of total investment works out to about 8 per cent for the economy as a whole during the Eighth Plan period. It works out only to 1.65 per cent in the electricity, gas and water supply sector whereas in construction and other sectors it works out to be considerably higher than the national average. In terms of the ERR, the national average implied by the plan targets is 16 per cent. The manufacturing and other sectors require distinctly higher ERR whereas electricity, gas and water supply, transport and communication, construction and mining and quarrying sectors need a substantially lower ERR than the national average.

Given the extent of the variation in the required ERR across the sectors, it is important for the government to ensure through appropriate policy measures that the investment target in every sector is met if the plan has to succeed. If the private capital is supposed to get a return of 18.2 per cent in the manufacturing sector, 16.8 per cent in other sectors and 15.5 per cent in agriculture, it is going to be very difficult to attract it to sectors like electricity, gas and water supply or transport and communication or construction or mining and quarrying where the returns are only 5 per cent, 8.6 per cent, 9.3 per cent and 10.8 per cent respectively. These are precisely the sectors where privatisation and foreign investments are being encouraged. Without any substantial inducements

offered for attracting the private capital in these sectors, the sectoral targets of investments in the plan appear to be only a wishful thinking. Indicative planning certainly does not mean such a wishful thinking. If, however, these targets are to be taken seriously, incentives in the form of heavy annual subsidies of about 11 per cent on electricity, gas and water supply projects, 7.4 per cent on transport and communication projects, 6.7 per cent on construction projects and 5.2 per cent on mining and quarrying projects have to be provided in real terms. Similarly, disincentives to the tune of 2.2 per cent pa on the manufacturing projects have to be provided over the plan period. The plan documents do not contain such strong and clear measures. Although the budget for the year 1993-94 provides a tax holiday for five years and other concessions to the private enterprises to attract them in these sectors, it is doubtful whether they would be sufficient.

Finally, we may examine the implications of the Eighth Plan targets on the rate of total factor productivity growth (TFPG) in different sectors. For the economy as a whole, the Eighth Plan visualises a TFPG of 2.4 per cent out of 5.4 per cent growth in real GDP. Such a high contribution of TFPG, moreover, is to be achieved only through the manufacturing and mining sectors in the economy. The rest of the sectors are not expected to experience TFPG in excess of the national average. Although this in itself is a surprising element, the most astonishing implication of the exercise of setting the targets in the Eighth Plan is the negative TFPG or 'residual' in electricity, gas and water supply sector. Something has seriously gone wrong with the calculation of targets in the Eighth Plan in general and the one in electricity, gas and water supply in particular. If it is not so, it implies that the Planning Commission has no concrete steps nor any intention to improve efficiency of the public enterprises in this critical sector of the economy. Considering that only 10 per cent of total investment in electricity, gas and water supply sector is envisaged to come from the private sector (Table 1), the Eighth Plan targets imply the government's commitment to encourage inefficiency and wastage of resources by inflating the public sector in such priority sectors! Since the concept of economic planning involves *inter alia* optimisation, it is difficult to accept a negative TFPG target for a sector in the plan. As was the case with the Seventh Plan [Dholakia 1988], the Eighth Plan also does not ap-

pear to meet the consistency requirement when viewed from the angles of return on investment and the total factor productivity growth.

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Class Structure and Social Philosophy in Health Care

Niranjan Phukan

VR MURALEEDHARAN 'When Is Access to Health Care Equal?' (*EPW*, June 19) offers to study in some depth "the issue of equality of access to health care". He analyses the issue into various aspects, each further 'decomposed' into a set of practical propositions, and goes on to show how vague, ill-defined, unsettled or doubtful such propositions are or can be. The exercise is stimulating and useful, but it fails to deal adequately with a major question that hovers about the issue. The question is the nature of the society where the demand for equality in health care arises, and the class implications of this demand.

Muraleedharan realises that the issue cannot be discussed as a theoretical abstraction, but in terms of its practical consequences for a given society. The concept of equality governs certain decisions and programmes of the citizens and public authorities of a certain type of modern state. Hence it must be rigorously and concretely defined. We have got to decide whether equality means equal opportunity to use health services, equal cost of health care, equal ability to pay for it, or equal per capita allocation of funds for health care.

So far so good. But Muraleedharan fails to see that concrete definition need not get bogged down into a mass of conflicting details. The definition has no meaning divorced from the class structure of the state at a particular point of its development and among factors bearing on the issue this has an overriding significance. Differences between child and adult, male and female, upper and lower castes, educated and uneducated, are doubtless of material importance, but Muraleedharan seems to give them disproportionate weight. The question of economic disparity, of inequality in purchasing power, is decisive, given the nature of capitalist society. The crucial role of class can be seen not only in health care but also in transport and education, where class differences lead to drastic inequalities in opportunity and use. The structure of health care itself is determined to a great extent by the class structure of society. Ultimately, of course, the question can only be settled by social transformation. But until then the working class cannot settle for less than a welfare state. Of course, once the question of class is grasped firmly and squarely, there is no escaping the question of one's attitude to it. By going in for a neutral stance and giving class as much weight as gender, tradition, physical location, etc, Muraleedharan simply fudges the issue.

In passing Muraleedharan also nods at the problem of defining health. Expanding horizons in our idea of health have now called in to question earlier narrowly mechanical (clinical and physiological) understanding of health. It therefore follows, according to him, that since we are no longer sure what health is, we cannot be sure what health care means, far less how we can plan for equality in health care. However, the revolution in the idea of health is yet to

revolutionise medical practice, i.e., is yet to transform radically the diagnosis and treatment of diseases, control of certain physical disabilities, the collection of statistics and the application of standard tests for gauging the efficacy of health services. Pending such a revolution, the poor people of a third world country had better insist on equality within the framework of current medical practice. One imagines that such factors as environment, emotional well-being, social integration can be counted as indices of health only when more urgent problems within the present framework are resolved.

Practical exigencies in capitalist society have given rise to the idea of the welfare state, which seeks to bridge the gulf between classes through provision of health services at state expense. In education, to cite a parallel, government schools are provided to offset the imbalance between the resources available to the rich and those available to the poor. This of course is not the ideal solution, as Muraleedharan's discussion itself brings out in some places. But the discussion can be meaningful only under such an assumption.

Muraleedharan, however, believes that the question of cost-effectiveness must not be evaded and goes on to say that the trade-off between "cost and effectiveness" must decide whether the delivery of health care is to be taken over by the state or left to market forces. This is confusing. The welfare state has got to intervene against the operation of market forces that bring about inequality. (Of course, it is not so much a question of suppressing market forces as of controlling and guiding them in public interest.) Muraleedharan makes great play with questions like: Health care for what? Health care for whom? It is a pity that he does not raise the equally pertinent question: Cost for whom? Effectiveness for what? A clinic where one pays Rs 1,000 for a simple X-ray may be more cost-effective than a public hospital where one gets it for Rs 50. But for us that is not the whole story. In the market-oriented society the cost of health care will be borne by the individual alone, whereas in the welfare state, whatever the tensions and frictions, the cost will be shared by the entire society.

A related problem mentioned by Muraleedharan is the mounting cost of delivery of health care owing to the advent of sophisticated, high-cost technology. Much of this is the offshoot of monopoly of MNCs and TNCs. State action (both national and international) is absolutely essential to bring under some control the depredations of the 'global' mafia of the MNCs and TNCs. Further, wherever low-cost technology is available or feasible, the state must promote it in the teeth of MNC resistance.

The fundamental practical problem, not touched upon by Muraleedharan, is that in a class-based, competitive society such public services acquire an odour of charity, which is quite out of keeping both with the competitive

individualist environment and the bureaucratic ethos of the state. The staff in charge of such services tend to deal with their charges (patients, students, passengers, old people) with impatience, resentment and some contempt. In the absence of a guiding social philosophy, corruption thrives. The so-called inefficiency of such services is a reflection of the general environment.

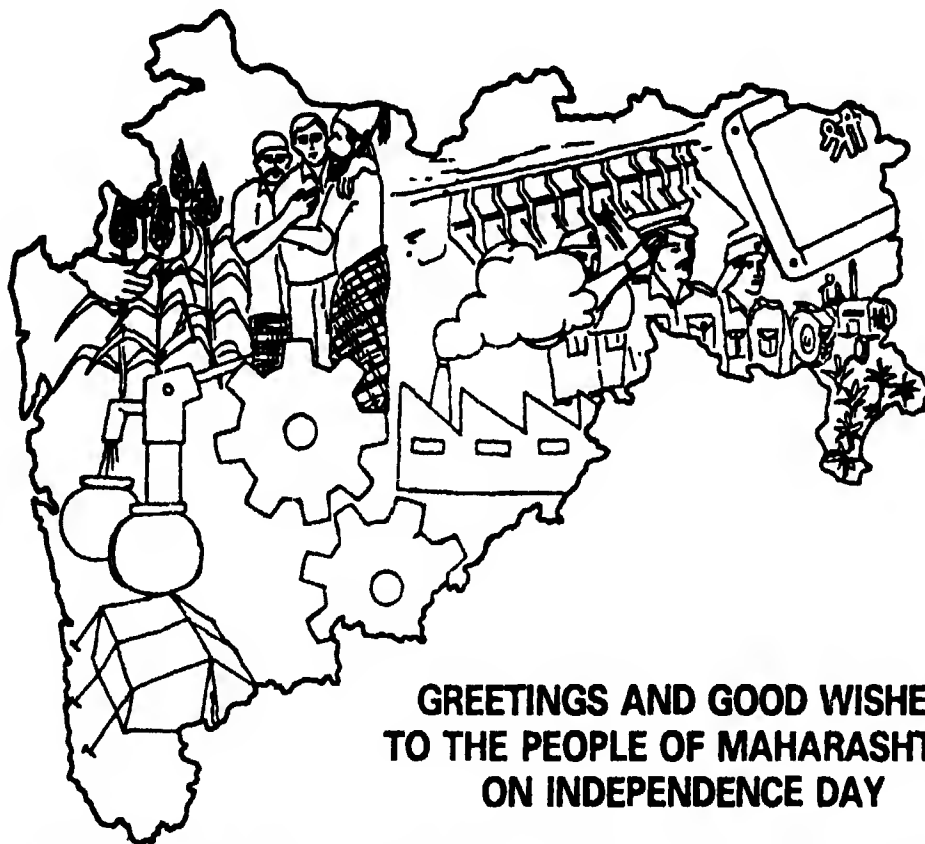
For these reasons sooner or later, as in Thatcherite England, Reaganite America and Narasimha Rao's India, these services come under virulent attack. Such a powerful social philosophy, supplying energy to the dispensation of health care and ensuring a healthy concern for quality and standards among the staff, can flourish only under the umbrella of a strong social movement led by the working classes. Pending the transformation of society, the working class movement must take upon itself the task of ensuring that the services provided by the state do not get bogged down in inefficiency, corruption and callousness. Without such commitments the labour movement also gets contaminated by the capitalist environment.

At this point one has to confront the ethical issues raised by Muraleedharan. (How much of inequality/equality should there be? Who will bear the burden of health care?) Inequalities proceed largely from the social system and moral questions here are inevitably social questions. The resolution of the conflicts between the conflicting claims of different classes (which seems like a terrifying chimera to Muraleedharan) is a matter of the phases of class struggle. Those who consider the market an absolute will, of course, never condescend to discuss questions of social justice. Justice is what the hidden hand of god decides through the market. Social justice is an idea that appeals only to those who admit the limitations of the market. The working class can also accept the idea provisionally, as long as it can be made to work for the benefit of the working class. The emphasis must be on increasing equality. The revolutionary vanguard will, of course, seek to persuade the working class to work for revolutionary transformation of society. But for the moment the idea of social justice is bound to win the widest support among the working classes and the poor and deprived of all other classes. There is no ethical question outside this concrete context.

Some of the other issues raised by Muraleedharan are either red herrings or issues following from the fact that the third world countries differ in some respects from advanced capitalist countries. Adjustments to our general perspective may be made accordingly, but the general principles need not be abandoned.

It seems that Muraleedharan unconsciously identifies himself with the apparently impersonal, bureaucratic ethos of the capitalist state and seeks justice in terms of its alleged impartiality. This idea may be useful to the working class in improving its lot and getting some relief, but it may not be accepted uncritically by the working class. The question of equality must be posed by the working class in opposition to the bourgeois ideal of charity or social engineering.

Social scientists must ask themselves: for whom are they working? And for what?



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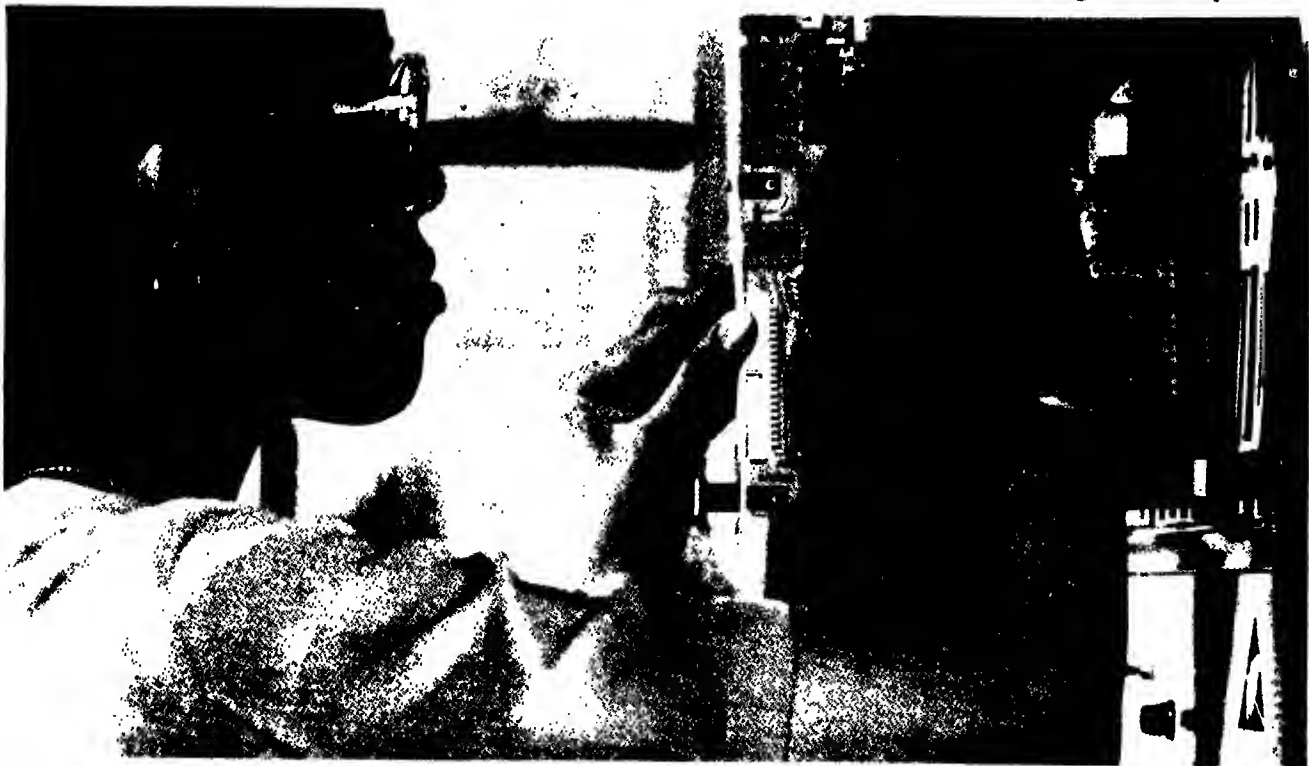
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August 21, 1993

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**SANGH PARIVAR AND
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BALANCE SHEET (ABRIDGED) AS AT 31ST MARCH 1993

(Rs. in lakhs)

31-03-1992 LIABILITIES	31-03-1993	31-03-1992 ASSETS	31-03-1993
5,05.00 Capital	5,05.00	345,48.01 Cash and balances with Reserve Bank of India	331,20.74
12,25.02 Reserves & Surplus	19,45.66	36,55.38 Balances with banks and money at call and short notice	44,18.36
1491,35.79 Deposits	1717,82.77	461,08.75 Investments	610,21.68
60,04.91 Borrowings	122,14.86	663,70.01 Advances	865,88.91
78,19.69 Other Liabilities & provisions	87,71.75	7,53.29 Fixed Assets	8,32.23
		132,54.97 Other Assets	92,38.12
1646,90.41 TOTAL	1952,20.04	1646,90.41 TOTAL	1952,20.04

PROFIT & LOSS ACCOUNT FOR THE YEAR ENDED 31-03-1993

(Rs. in lakhs)

31-03-1992 EXPENDITURE	31-03-1993	31-03-1992 INCOME	31-03-1993
84,41.67 Interest Expended	135,27.38	137,51.88 Interest earned	178,35.09
37,88.53 Operating Expenses	44,23.78	12,63.11 Other Income	21,53.90
21,77.07 Provisions & Contingencies	12,11.03		
6,07.72 Net Profit for the year	8,26.80		
150,14.99 TOTAL	199,88.99	150,14.99 TOTAL	199,88.99

Chairman : **M.P.K. Nair**



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August 21, 1993

'Rent-Seeking'

That wasteful expenditure is inimical to development was a cardinal tenet of classical political economy. So there is nothing particularly novel about the idea of earning of rent as an obstacle to progress. What is novel about the targeting of 'rent-seeking' by the champions of free competition is the deliberate restriction and arbitrary redefinition of the concept and its application to denigrate all government intervention and virtually abolish the domain of politics in the developing countries. 1729

Narmada Resettlement: The Facts

Lack of serious effort to gauge the total impact of the Sardar Sarovar project at the state of project formulation, determine the number of project-affected people at the very outset and assess the nature and extent of resources, including finance, required for resettling the displaced has doomed the project's resettlement and rehabilitation plans to failure, leading to the persistent tense situation in the Narmada valley region. The findings of six years of work by the official agency for monitoring and evaluating resettlement and rehabilitation in Maharashtra. 1705

Unwanted People

Since 1947 population movements across boundaries have generated conflicts both within and among the countries of south Asia. The 12 major bilateral population flows in the region can be categorised into three types—rejected peoples, political refugees from repressive regimes and unwanted migrants. 1737

Different Rules

The idea of a separate set of rules for the white-collar worker has to be somehow justified by bending, stretching and applying suitable elastomers to the accepted principles of the capitalist drive for competition and the shifting sands of marginal productivity in relation to employee compensation. 1696

Poverty Debate

The protracted debate on defining and measuring poverty has failed to produce agreement on methodology; it has also not made much headway in delineating the profile of those below the poverty line in terms of social classes. Special statistical section on norms, estimates and trends of poverty in India. 1748

Peasant Classes

If the size of landholding is unsatisfactory as index of peasant class status in a situation of institutional and technical change, the same is true of the labour-exploitation criterion proposed as an alternative. 1721

Open House

While many factors have sustained the politics of Hindu communalism, the space and opportunities provided in the post-independence era to the votaries of Hindu communalism by the Indian polity have played a major role. 1715

Prison Report

The total number of prisoners may be low in India for a country of 850 million, but a concomitant of the low rate of incarceration is the high incidence of summary punishment by the police. Human Rights Watch's *Global Report on Prisons*. 1698

Critical Marxism

We cannot speak of a failure of Marxism since such a thing does not exist; what exists are several Marxisms which derive their origins from social struggles and from different aspects of Marx's work. This calls for the development of the only kind of Marxism that is defensible: critical Marxism. 1719

Viability of Rural Bank Branches

THIS is to clarify some of the points raised by C L Dadhich (June 26). In my article (May 1) I had worked out the consolidation of the balance sheet and profit and loss statement of the branches grouped according to the size of population. Since my objective was to make meaningful comparison amongst the population groups, I have not made the data comparable with the published figures for the nationalised banks. As we are dealing with unpublished data and that too for a very recent period for an individual bank, there are some limitations on total transparency.

In my note I mentioned that "the sum of the gross profit made by the branches exceeded that of the bank as a whole because transfer payments to branches exceeded the income of the head office from deployment of funds in statutory pre-emptions". This implies that I have not adjusted the branch data for HO loss. The HO loss arises from fund operations and also due to the expenses of the entire administrative offices including zonal and regional offices. To correct this limitation and make the data comparable with that of the published figures of nationalised banks, we may deduct HO loss from branch profits. It appears reasonable that 60 per cent of the loss may be ascribed to loans and 40 per cent to deposits. This has to be again apportioned to branches according to the share of each population group in the total advances and deposits of the bank. After the apportionment, the sum of the gross branch profits will be equal to that of the bank as a whole as published in the financial statements. The figure is comparable to the gross profits of nationalised banks as published in the *RBI Report on Trend and Progress of Banking in India*.

After making the adjustments, we find that the profitability (ratio of gross profits to working funds) of rural branches of the bank in question is 1.30 per cent which is second only to that of the metro branches at 1.78 per cent. For semi-urban and urban branches the ratios were 1.05 per cent and 1.18 per cent respectively. More importantly, the profitability ratio of the rural branches of the bank in question at 1.30 per cent is higher than the ratio for the nationalised banks (all branches) at 1.27 per cent. My point is that the rural branches of the selected bank did well as compared with other branches of the same bank and the entire branches of all nationalised banks.

I do agree with Dadhich that the Rural Debt Relief Scheme did reduce non performing advances at rural branches and

to that extent increased the profitability of these branches in 1991-92. But my contention is that this is applicable equally to all banks. Moreover, banks have been writing off bad loans generally in bigger accounts in other centres. How far this write off has been effected in the books of the branches is difficult to say.

The profitability of rural branches has received a big boost with the income tax rebate available for the banks at the rate of 4 per cent of average rural advances from 1993-94 onwards. For analytical purposes, we may make the calculations based on rural advances of 1992-93. The tax rebate at the rate of 4 per cent exceeded the gross profits of rural branches. For analytical purposes, the excess tax rebate is also treated as income of rural branches and the amount has been proportionately deducted from the income of branches of other population groups. By this method, we have arrived at the post-tax profit of branches in all population groups. The post-tax profitability of rural branches comes to 1.99 per cent compared to 0.63 per cent for semi-urban branches, 0.71 per cent for urban branches at 1.07 per cent for metro branches. For the bank as a whole it was 1.05 per cent. This situation has tremendous implications for the strategy to be followed by banks to increase post-tax profits. From 1993-94 onwards, the post-tax profits will be much higher for banks which expand rural credit. There is absolutely no question of rural branches being subsidised by earnings from other branches. Comments and suggestions on the methodology to be followed to arrive at comparative post-tax profitability of branches grouped on population basis will be very useful.

ANALYST

New Delhi

Citizens' Tribunal on Ayodhya

THE Citizens' Tribunal on Ayodhya held its open hearings in New Delhi from July 6 to 13 in which valuable evidence was presented in front of the eminent judges, D S Tewatia, D A Desai and O Chinappa Reddy. Judging from the public reaction, the hearings were an unprecedented success. As per the instructions of the judges the secretariat will be carrying out its back-up responsibilities. The judges will be advising us on what other procedures should be instituted before final judgment is pronounced. We will keep you informed of any major procedural development if and when they are decided upon.

We also want to share with you about the financial difficulties we are facing on account of the work of Citizens' Tribunal on Ayodhya. We are in desperate need for further finances for secretarial work, photocopying, postage, printing, translating, transcribing, etc. We appeal to you for financial contributions. We cannot receive money from organisations who are foreign funded. Hence we request you to make individual contributions in the form of cheques, demand drafts and money orders in the name of 'The Other Media', K-154 (First Floor), Green Park Extension, New Delhi-110016.

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Shoe Begins to Pinch

ALL indicators point to a deepening of the industrial recession, now in its third year. This is entirely attributable to the measures taken as part of the stabilisation and structural adjustment programme—the initial bank credit restrictions as also the stiffening of the cost of both short-term and long-term credit, the earlier import restrictions, the diversion of domestic savings as well as foreign exchange into unproductive uses like gold and silver holdings and, above all, the fiscal compression and drastic reduction in public investment.

The growth of industrial production at about 8 to 8.5 per cent per annum on average for almost a decade was halted in 1991-92 when the growth rate collapsed to zero, followed by a growth of only 1.5 per cent in 1992-93. The April 1993 index shows an absolute fall of 1 per cent over that for April 1992. The manufacturing sector registered a decline of 1.7 per cent and mining of 5.2 per cent in April 1993. This cannot be brushed away as a seasonal phenomenon, for in the past two years April had not shown any over-the-year decline in industrial output. Besides, but for a 6.4 per cent rise in electricity generation in that month, the fall in the overall industrial production index would have been steeper. Advance data for April-June 1993 show a rise of 8.3 per cent in electricity generation over the corresponding period of 1992-93. However, other infrastructure industries such as coal, petroleum and steel as also the railways' revenue-earning traffic have experienced either low growth or absolute decline.

The severest setback has been experienced by basic metals, metal-products and engineering industries, the outcome of the cut in investment, particularly public investment, as also a change in the composition of investment. In the two-digit classification of industries used in the index of industrial production, five groups, namely, basic metals and alloys, metal products and parts, non-electrical machinery and machine tools, electrical machinery and appliances and transport equipment, which together have a weightage of 30.5 per cent, have been the worst hit by the demand recession. Each one of these, except the basic metals and alloys, faced absolute reductions in output in 1991-92 ranging from -3 per cent to -13 per cent. The basic metals and alloys group which registered a moderate growth of 5.8 per cent in 1991-92, has now caved in and recorded a decline in output of 0.8 per cent in 1992-93 (April-February). Metal products and non-electrical machinery have shown decline of output of 5.6 per cent and 0.8 per cent, respectively, in the same period, while electrical machinery and transport equipment have registered a marginal rise in production.

Even these data do not fully reflect the severity of the recession facing the capital goods sector. The chair person of the capital goods committee of the Confederation of Indian

Industry (CII) has gone so far as to warn that the domestic capital goods industry faces the immediate threat of closure. According to him, this segment of industry was threatened by a flood of imports of both new and second-hand equipment. This is evident from government data. Imports of machinery other than electrical machinery have shot up from Rs 3,593 crore in 1991-92 to Rs 4,866 crore, i.e., by about 35 per cent. Imports of electrical machinery rose from Rs 1,552 crore to Rs 2,358 crore, i.e., by about 52 per cent. There have been similar increases in transport equipment and professional instruments. No doubt, a part of this increase is explainable in terms of the depreciation of the rupee. Even so, considering the fact that overall imports have been sluggish due to the recession, the rise in imports of capital goods is noteworthy. Nor can the larger imports be attributed to additional investment. While full information on capital formation in the economy in 1992-93 is not yet available, the first year of structural adjustment, 1991-92, ushered in a drastic decline in the rates of real gross capital formation (at 1980-81 prices) from 24.4 per cent to 22 per cent of GDP and of net capital formation from 16.8 per cent to 13.7 per cent of NDP. These trends would have continued in 1992-93 and 1993-94. There is some basis, therefore, for the apprehension that imports have begun to substitute for domestically-produced capital goods.

Industry spokespersons have singled out anomalies in the customs duty structure as between raw materials, spares and finished goods as the factor responsible for the industry's travails. Many categories of capital goods now attract tariff rates of only 25-30 per cent whereas intermediates like raw materials bear duties of 70 to 85 per cent and components of 25 to 40 per cent, resulting in some kind of negative protection for the Indian capital goods industry. In the past two years, tariff rates on machinery have been brought down sharply from a maximum of 80-100 per cent in July 1991 to around 55 per cent in March 1992 and then to 35 per cent in March 1993. The government's objective now, as recommended by the Chelliah committee report on tax reforms, is to bring down the weighted average of import tariffs, which has come down from about 87 per cent in 1990-91 to 47 per cent in 1993-94, to 25 per cent by 1996-97. In the case of the fertiliser industry, which has been allowed duty-free import of capital goods, it has been reported that orders for equipment worth more than Rs 1,000 crore from various fertiliser companies are likely to go to foreign suppliers. Likewise, the electronics industry, consisting of consumer electronics, computers, telecommunications and electronic components, has complained that the Chelliah committee has failed to appreciate the nature of the industry and recommended high customs duties on raw materials and low duties

on components and finished goods and that a reduction in the effective rates of protection along these lines may well destroy the nascent industry.

But in arguing for rationalisation of the customs tariff structure, industry spokespersons are taking an altogether narrow view of the problem. True, they have expressed their fears in very strong terms. For instance, a former president of the CII has declaimed that "there is a deliberate attempt to demolish the capital goods industry in India". Attributing government policies to pressure from the International Monetary Fund, he has pointed out that "those who give you the money will always extract their pound of flesh". But industry spokespersons are ignoring the more fundamental issues arising out of the stabilisation and structural adjustment programmes. Rationalisation of the customs duty structure will not by itself solve the capital goods industry's problems. In fact, the government may concede the point and to an extent realign the customs duties as demanded by industry, but will that lift industry out of the recessionary conditions? Not likely, for the problems that have been created for the capital goods sector by the government's policies on reduction of public investment, almost total liberalisation of imports and general opening up of the economy are deep-rooted. Apart from the sizeable investments made by the public sector directly, there was a certain pattern of investment in the past which had favoured capacity build-up in basic and capital goods industries as also in infra-structural industries. In the era of liberalisation, the private sector can hardly be counted upon to build on this industrial base. Also, the diversion of resources to support conspicuous consumption is bound to create a different production structure, much more import-based than in the past. While, in the next phase of development, there was need to restructure the industry, the socially optimal course would have been to upgrade the edifice of basic and capital goods industries already created through infusion of fresh investment, technology and management. But, clearly, such an approach has little place in the scheme of all-out liberalisation and globalisation.

HEALTH CARE

Old Prescription

THE latest *World Development Report (WDR)* is yet another indication of the fact that health care will be a major factor in international parleys between aid-givers and aid-recipients. And it is not difficult to fathom the logic: the impact of structural adjustment programmes will be most visible in deteriorating health condition of a large mass of the population. Strengthening the health care system and

renewing efforts to control and eradicate diseases become major agendas for a variety of reasons. Of first importance is the adverse impact of ill health or a lowered health status on productivity and on resource use and availability, which the *WDR* acknowledges. Structural adjustment programmes will inevitably lead to a change in employment patterns, along with unemployment. Moreover ill health impairs 'efficiency' in more ways than one: it not only generates a mass demand for medicare but also provides a focus for generating political mobilisation in the long run. This means that while a small section of relatively better-paid workers will have to be provided access to efficient health care services, survival strategies will have to be put in place for the large mass of the underemployed and unemployed. All this at minimum cost to the state which is in the process of winding down its welfare commitments.

There are other reasons for this new interest in health. World health spending has increased rapidly. In 1990 public and private expenditure on health care was about \$ 1,700 billion, 90 per cent of it in the high income countries. Interestingly, however, it is the 10 per cent which is spent in middle and low income countries which is the focus of attention in the *WDR*. According to the report, public money in these countries is being spent on health interventions of low cost-effectiveness, while cost-effective interventions are under-funded. In an environment where the major prescription is for 'rationalising' public expenditure, it becomes imperative that the health sector be scrutinised and analysed to make it more cost-effective. In pursuing this objective the *WDR* arrives at more sophisticated means of measuring health indices: the disability-adjusted-life-year (DALY) to measure the burden of disease. The DALY combines healthy life years lost because of premature mortality with those lost as a result of disability. The total loss of DALYs across all regions is referred to as the global burden of disease.

The Bank proposes a three-pronged prescription for improved health: control of communicable diseases, interventions other than in health and provision of 'essential' clinical services combined with a regulated health care market. The prescription is not really new—health planning documents have echoed a large part of this formula for long in India. And while mortality due to communicable diseases has been brought down, morbidity patterns are still a cause for concern. There are several reasons for this, the most important of which is the limited effectiveness of technological interventions. While immunisation, early diagnosis, etc, can effect a certain improvement, they cannot become the sole tool for eradicating diseases. A major factor is the

developmental patterns which make for the spread of communicable disease, directly and indirectly. For instance, a World Bank report on the Narmada project pointed to the spread of malaria in the area. Similar changes in disease patterns have occurred with major projects. Indirectly, such top-down developmental activity has contributed to loss of jobs, loss of livelihoods, impoverishment, migration to urban centres, and the consequent poverty-malnutrition-ill health cycle where communicable diseases flourish. If disease mortality has been brought down at all, a major factor has been the provision of public hospitals and medicare facilities, inadequate as they are.

The report's emphasis on essential clinical services is based on at least two mistaken notions: that tertiary care is well-funded and is used by the well-to-do and that the poor need only essential care. The fact is that public health care facilities are extensively used by the poor. The poor use private health facilities when efficient care is not available in state-run hospitals. And the government's tertiary care facilities are notoriously short of funds.

Hidden amidst all the verbiage and data is the fact that the Bank's prescription is for an overall withdrawal of funding for health, to replace which it proposes to encourage a regulated private sector in health care.

AGRICULTURAL PRODUCTION

Bengal to the Fore

THE past decade has seen significant though silent changes in statewide agricultural growth. As a recent study by the Centre for Monitoring Indian Economy (CMIE) brings out, a striking case is that of West Bengal. Among the major states (i.e., all except the small states of the north-eastern region), West Bengal has recorded the highest average growth in foodgrains production during the past decade, that is, a compound annual rate of growth of 6.5 per cent between the triennia 1981-82/1983-84 and 1989-90/1991-92, as compared with the national average of 2.7 per cent per annum. West Bengal has registered impressive growth rate in both kharif (6.2 per cent per annum) and rabi (7.5 per cent per annum) foodgrains.

West Bengal's performance stands out when compared with that of, say, Maharashtra. In 1981-82, Maharashtra's total foodgrains output at 10.57 million tonnes was over 60 per cent higher than that of West Bengal (6.55 million tonnes). After a decade, in 1991-92, West Bengal's foodgrains production at 12.65 million tonnes was over one-half more than that of Maharashtra (8.35 million tonnes). Maharashtra's growth rate during the period under reference was only 1.2 per cent per annum. Maharashtra has not also shown any noticeable improvement in the

output of non-food crops like sugarcane (annual average growth of 2.9 per cent against the national average of 3.4 per cent per annum) or cotton (annual growth rate of 3.8 per cent against the national average of 4.5 per cent).

West Bengal's forte has been rice production in which it registered, among all the states except Mizoram and Sikkim, the highest growth rate of 7.4 per cent per annum during the decade, compared to the national average of 4.1 per cent per annum, replacing Andhra Pradesh as the largest rice producer in the country. In 1981-82, Andhra Pradesh produced 7.87 million tonnes of rice or 35 per cent more than that produced by West Bengal (5.83 million tonnes). By 1991-92, the positions had been reversed and West Bengal (with 11.76 million tonnes) produced about 25 per cent more of rice than Andhra Pradesh (9.47 million tonnes).

Apart from West Bengal, the states which are competing for high stakes with Punjab and Haryana in foodgrains production are the two eastern states of Orissa and Bihar. As compared with Andhra Pradesh, for instance, Bihar had about 28 per cent lower foodgrains production in 1981-82 but by 1990-91 Bihar's output (12.26 million tonnes) was close to that of Andhra Pradesh (12.33 million tonnes), the former with an annual average growth of 3.8 per cent as against 0.9 per cent per annum for the latter. Likewise, the comparative performance of Orissa and Karnataka. Orissa's total foodgrains output at 5.40 million tonnes in 1981-82 was about 26 per cent lower than that of Karnataka (7.31 million tonnes) but by 1991-92 Orissa's production at 8.36 million tonnes had overtaken that of Karnataka (7.91 million tonnes). The growth rate in other smaller north-eastern states has also been higher than the national average—Mizoram (9.3 per cent), Nagaland (7.3 per cent), Arunachal Pradesh (4.6 per cent) and Tripura (2.9 per cent); even Assam (2.7 per cent) experienced an annual growth equal to the national average. But if the eastern and north-eastern states have performed well, the southern states have uniformly fared badly during the period—Kerala (-2 per cent per annum), Karnataka (0.5 per cent) and Andhra Pradesh (0.9 per cent). In this respect, Tamil Nadu's average growth of 2.9 per cent is partly statistical, as the base level output in 1982-83 and 1983-84 had been exceptionally low due to drought conditions; otherwise the state's foodgrain production has been almost stagnant for many years now.

Overall, the official agencies' claim that agricultural growth has spread to a wider set of states is not entirely borne out; it is just that in rice the traditional rice-growing states in the south are being replaced by the states in the east and the north-east. The overall rate of growth of

rice production has been about 4 per cent and of total foodgrains production about 2.7 per cent per annum.

KARNATAKA

Congress(I)'s Dilemma

THE Congress high command is obviously caught in a cleft stick in regard to the plea for a change of leadership in Karnataka. On the one hand, chief minister Veerappa Moily has not only been openly critical about the prime minister on several occasions, but has committed the cardinal sin of injuring vested interests who have traditionally received protection from Congress ministries. Moily has also generated considerable ire among the powerful Vokkaliga and Lingayat sections by alienating their representatives in his cabinet. On the other hand, frequent changes in the leadership are bound to damage the party's already tarnished image in the state where the Bharatiya Janata Party (BJP) has made large strides in the last couple of years and is a major threat to the Congress(I). And, in the wake of the Bangarappa ministry's rampant corruption, Moily is earning a reputation for running a relatively clean government.

Moily's promotion to leadership came in the face of a strong challenge from the Vokkaliga lobby whose leader, SM Krishna, has been chief minister-in-waiting for a long time. Moily was thus forced by circumstances to prove his credentials. This he did by first removing corrupt bureaucrats peremptorily and by excluding from his cabinet Bangarappa's cronies who had commanded considerable influence. The liquor lobby was among the first to come under attack with the government abolishing bottling contracts and handing over the manufacture, blending and marketing of arrack in sachets to two state sector companies. And although Moily has tried to make amends, the liquor lobby, which has always lent considerable monetary support to the party in power, is still seething. Yet another move of Moily to uphold the Supreme Court verdict on abolishing capitation fee, while neighbouring states maintained a discreet silence, has injured the interests of powerful castes such as the Vokkaligas and the Lingayats. To add to this Moily has kept control of many ministries, including excise, finance, home and industry, with himself. And although he had to accommodate S M Krishna as deputy chief minister, Moily has not taken him into his confidence, as a result of which the Vokkaliga lobby is being pushed out of spheres of influence in the government. Of the 44 dissidents who are reported to have attended a meeting last week, 22 were those who had been in the Bangarappa ministry. Hence the chief minister's contention has been that the

dissidence is mostly a matter of self-interest and has nothing to do with the party's future in the state.

The party high command has also to contend with the fact that the Congress(I) in the state faces a grave threat on two counts: one, with the Samajwadi Janata Dal merging with the Janata Dal, the latter may well be in a position to regain its vote bank. Secondly, the recent by-elections to the Yelahanka assembly constituency, the largest assembly constituency in the state, has shown the growing strength of the BJP. The Congress(I) candidate, Prasanna Kumar, won by a measly margin of 512 votes over his BJP rival, whereas his father had won by a margin of 23,000 votes in 1989. In recent months the BJP has been attracting massive turnouts at its numerous rallies in the state. With the panchayat elections round the corner, the Congress(I) cannot take chances and needs to shore up its image. A change in leadership at this juncture is unlikely to find favour with the high command. All things considered, Moily will probably continue to be in charge, but will be compelled to go slow on the clean-up and accommodate competing interest groups within the party, perhaps by a re-allocation of portfolios and a change in his manner of functioning and by letting up on the anti-corruption measures.

LABOUR LAWS

On Paper

ACCORDING to a recent report India has come in for considerable criticism from the International Labour Organisation (ILO) for not implementing the organisation's guidelines. India's dismal record is particularly galling in the face of the fact that it has been among the few countries which have ratified a large number of ILO conventions and is also a founder-member of the organisation and a permanent member of its governing board. This is a comment as much on the government's attitude to labour issues as on the failure of the labour movement in the country to force the state to discharge its responsibilities. The lack of interest in these issues is evident from the fact that the tripartite committee on International Labour Conventions, which is supposed to meet annually to review the country's performance, has met only once in the last 10 years.

A closer look at Indian efforts at implementing ILO guidelines would suggest that while the government has been at pains to project the right image of concern for the toiling masses in international fora, it has been lackadaisical in creating the machinery for protecting workers' rights. For instance, India had ratified the ILO's Forced Labour Convention in 1954, but passed legislation to implement the

guidelines only in 1976, with the Bonded (System) Abolition Act. But so poor has the implementation of the act been that even now there is no clear picture of the extent of bonded labour in the country. And the labour ministry readily admits to the fact that states have not complied with the minimum requirement of periodic reviews and reports on the situation. There is clearly a vast distance to be travelled between ratifying international conventions and adhering to their requirements. Abolishing bonded labour, for instance, is not simply a matter of passing legislation, but of committing the state to changing the prevailing socio-economic system. And as long as those who legislate are also those who benefit by the system, change is unlikely to occur.

This is also why a number of other conventions ratified by India have remained on paper. The convention on equal pay for equal work, for instance, which lays down that payments must be on time-rate and not on piece-rate is grossly violated, especially in industries like beedi and matches and in the plantations where a large majority of the workers are women. This is as much because of the nature of the industries as because of the fact that women's labour is socially accorded a low value and that option carries into the economic sphere. The concept of equal pay for equal work can find firm roots only in the context of changes in the social system.

And it is in this sphere that the labour movement in the country (and its representatives in parliament) have failed miserably. Labour mobilisation has been overwhelmingly around monetary issues, with little effort spent on worker education and politicisation. The government's failure to implement labour welfare measures and safeguard workers' rights is one consequence of the failure of the left to sustain a politically-conscious trade union movement.

RELIGIOUS MOVEMENTS

Narrowing Space for Minorities

A correspondent writes:

IN the 1960s and 1970s when western countries, especially the US, saw a flowering of religious cults and movements, a spate of scholarly analyses saw in this people's disenchantment with the western ethic and a reaction and response to a culture which prompted social alienation. This in turn gave rise to various efforts to rejuvenate the 'spirit of America' and has contributed to the current resurgent interest in reviving the role of the family.

Now comes new analysis which locates the rise of alternative and peripheral religious consciousness in the availability or non-availability of religious products

and producers. A recent article in *The Annals*, the journal of the American Academy of Political and Social Science, traces the history of the rise and fall of religious movements in the US to changes in the sphere of state control and legislation.

For instance, the early 19th century withdrawal of state support for New England Congregational churches led to greater popular support for Baptists and Methodists. Even more telling is the link between changes in the legislation controlling broadcasting and the revival and growth of dynamic new evangelical movements. The Communications Act of 1934 which granted licences to private radio broadcasters stipulated that some part of the time had to be allocated for 'public' service which by definition included religious services. The easiest way of adhering to the provision was to turn over the time to organisations of churches, in this case the Federal Council of Churches which held a monopoly of the radio waves for several decades, preventing other denominations from using the radio, until the act was changed so that it was no longer necessary to provide free time for 'public' service. In the 'free' market, those denominations which had been marginalised earlier, and had had to adopt dynamic approaches, dominated and grew.

Similarly, the rise of the Eastern religious movements in the US in the 1960s and 1970s can be traced to the availability of religious 'producers' which was made possible by changes in the immigration laws. And given the prior unfulfilled interest in Eastern religions, this led to an upsurge of new movements.

Whether such a 'supply side' approach to the study of religious movements is universally applicable is debatable. However, the approach has yielded a certain insight into the likely impact of state regulation and judicial pronouncements on religious movements and especially on the not-so-influential, minority and marginal groups. For instance, a 1990 Supreme Court ruling on a petition by two workers who had been dismissed for having consumed peyote, a hallucinogenic drug, as part of the sacramental offering in a Native American church ceremony, has reversed the need for government to demonstrate compelling interest in enforcing laws on religious practice. This has been used to withdraw the exemption granted to Sikh males for 15 years from the federal regulation requiring construction workers to wear helmets because their religion requires them to wear turbans.

In other words, the trend towards reregulation of religion in American and in other western countries is an indication of the narrowing of the social space available to 'foreign' and therefore minority groups and their practices—signs certainly of the growing intolerance towards the periphery.

TWENTY YEARS AGO

EPW, Special Number, August 1973

The crisis facing the country on the external economic front this year is no less serious than the one on the domestic front, resulting from uncontrolled inflation, artificial shortages of consumption goods and erosion of investible resources. The gravity of the balance of payments situation has not been adequately recognised yet, mainly because attention has been focused on the mounting mass unrest on account of the shortages of items of daily consumption and their continually spiralling prices. If, however, the next harvest and the one after that turn out to be reasonably good, the domestic economic situation may get somewhat stabilised and become less of a preoccupation with the policy-makers; but the external sector is unlikely to show similar improvement. . . . The government's response to the developing situation will in all probability be to take shelter behind the excuse that the current year's difficulties are extraordinary and to liberally dip into existing foreign exchange reserves. Excluding gold and SDRs, our foreign exchange reserves are currently around Rs 470 crore. The government will, therefore, be soon compelled to approach the IMF to allow it to utilise SDRs and also to make available stand-by credits. But with all that, the foreign exchange position would reach a crisis point in about a year's time or so. Given the fact that it will not be possible to support large-trade deficits with the available net aid, the only course left to the government would be to slash the import bill sharply. If past experience is any guide the axe will fall first on import of capital goods, just as it is investment expenditure which is always the first victim of shortage of domestic resources. Such foreign exchange resources as become available through export earnings and net foreign aid will, one may be sure, be increasingly used to finance so-called 'maintenance imports' which, as we have seen, will go to support consumption in the economy.

Tatia Skylines and Health Farms

Tatia Skylines and Health Farms is setting up a five-star Indian Heritage Village having, in addition to business and conventional facilities, a golf course, an aqua park, a yoga meditation and health care centre, an aerobic arena and a sports complex. The project will be spread over 200 acres of land and is mainly designed to attract rich Indians and foreign tourists. Of the total membership 25 per cent will be reserved for Indian residents. The project has been approved by the department of tourism, government of India which has promised to render assistance for providing infrastructural facilities at the site. The company has been promoted by a group of Madras-based first generation entrepreneurs headed by Pannalal Tatia. The company is currently engaged in a project for construction of residential flats in Madras. Located in the Thali region of Tamil Nadu about 44 kms from Bangalore, the new modern health-cum-holiday resort will consist of 100 cottages and the same number of rooms and maximum occupancy has been taken as 5,250 members (75 per cent). The project has marketing arrangements tied up in Italy and west Asia, while further negotiations are under way in Japan, US, UK and France. The project, which has been appraised by ITCOT, envisages a gross income of Rs 9.8 crore, Rs 13.7 crore and Rs 18 crore with a net profit of Rs 2.6 crore, Rs 5.4 crore and Rs 8.4 crore for the years 1994-95, 1995-96 and 1996-97, respectively. On a total capital of Rs 12 crore, the EPS works out to Rs 2.1, Rs 4.5 and Rs 7 for the respective years. The Rs 29.88 crore project will be financed through membership fee of Rs 17.88 crore and equity of Rs 12 crore, out of which Rs 1.5 crore will be reserved for NRIs, Rs 75 lakh for Mutual Funds and the rest will be offered to the general public. The issue of 75,00,000 equity shares of Rs 10 each at par will open for public subscription on September 6.

Oswal Sugar

Oswal Sugar part of one of the three Oswal group entities, namely, Lala Vidya Sagar group (the Abhay Oswal group and the Jawahar Oswal group being the other two entities), is setting up a project for the manufacture of white crystal sugar with the specified minimum economic size installed capacity of 2,500 tonnes of cane crushed daily, and having the facilities of cogeneration of power of 6.6 MW, at a

cost of Rs 43.62 crore. The project cost includes Rs 1.62 crore of long-term working capital needs and Rs 9.05 crore repayment of bridge loans. The project is being financed, in addition to the existing share capital of Rs 6.37 crore, with the issue of partly convertible debentures worth Rs 18 crore (the promoters subscribing to Rs 15.36 crore of the issue), term loans of Rs 19.10 crore and state capital subsidy of Rs 15 lakh. Accordingly, the company is issuing 45 lakh PCDs of Rs 40 each and offering 21.75 lakh of these to the public, 10.89 lakh to the NRIs and 3.84 lakh as reserved quota to banks' mutual funds. Part A of the PCDs of Rs 10 will be converted into one equity share of a like amount at par on allotment. Part B of Rs 30 carrying zero interest can either be redeemed at par after 15 months, or surrendered to the company against tradable warrant to acquire one equity share at a price 70 per cent of the average of the closing prices on the Ludhiana Stock Exchange in the fifth, sixth and seventh month from the date of allotment of the PCDs. If the average price is more than Rs 30, the conversion price will all the same be Rs 30. The capital issue opens on August 24 under SBI Caps and PNB Caps as lead managers. The IFCI, appraising the project, has estimated sales for the three years, from 1993-94 to 1995-96, to remain at Rs 34.23 crore level with net profit to record a marginal increase from Rs 5.22 crore in 1993-94 to Rs 5.23 crore in 1995-96, but EPS to decline from Rs 4.80 to Rs 3.40. On the other hand, the company has projected, taking into account the new sugar policy and market price of sugar at Rs 9.50 per kg, sales to register a rise from Rs 40.13 crore in 1993-94 to Rs 41.93 crore by 1995-96, but net profit to show a decline from Rs 9.58 crore to Rs 8.58 crore and so also EPS from Rs 8.81 to Rs 5.58. The company has made an agreement with the

group company, Minkerian Papers, for sale of by-product bagasse at the rate of Rs 400 per tonne and of power at the prevailing PSIB rates.

Arun Processors

Arun Processors, which C Paramasivan, an NRI, and A Mohan, have come together to promote, is undertaking at Singampettai, Periyar district, Tamil Nadu, a Rs 19.58 crore project for manufacture of 1,050 tonnes per annum of knitted fabrics for upmarket export. Fabrics of this kind are in demand abroad, while with the manufacturing cost of raw material which the promoters have estimated for the project at one-twentieth of projected sale price, the value added products are expected to fetch high earnings in foreign exchange. As per the appraisal made by the IFCI of the company's project, in the very first year of commercial production in 1993-94, sales will amount to Rs 17.96 crore and will be earning a net profit of Rs 70 lakh. By 1995-96, the figures would be Rs 23.94 crore and Rs 3.04 crore, respectively, and by then the book value of the company's equity would be Rs 13.05 and the EPS Rs 3.30. The company has tied in for export the first year's entire production with Gericks, a German company, Unifin SRL of Italy and Jetihwani Enterprises of Malaysia, while from the second year it proposes to market its products by its own brand name. The project cost is being met by Rs 9.27 crore of equity and Rs 10.31 crore of institutional loans. The company having existing share capital of Rs 2.49 crore is issuing now 67.78 lakh shares of Rs 10 each at par, offering 41.49 lakh shares to the public and 10 lakh shares to the NRIs. The issue opens on August 23 under IFCI Securities and SBI Caps as lead managers.

—JK

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What Is Sauce for the Goose Is Not Sauce for the Gander

Arun Ghosh

There is an inherent asymmetry in all principles under the present international order, an asymmetry which goes back to the roots of the capitalist system. And it is in this international setting that India has chosen to 'globalise' the economy. Having accepted the legitimacy of this asymmetry, we have given up the basis of democracy; we have abrogated our Constitution.

AT long last, the London *Economist* (July 17, 1993) has rallied round to the defence of the white collar workers. After incessant campaigning for the drive to 'hire and fire' at will in the interests of competition, international competitiveness and progress, the champions of Thatcherite principles appear to have suddenly discovered that the remedy is now being applied to their own near and dear ones, their own kith and kin. One has to draw the line somewhere. After all, the principle of hiring and firing may be good for the bottomline of companies, it may promote the fear of god in the workers and induce them to work harder for lower (real) wages, it may promote exports (and therefore be good for the country), but the principle cannot surely be applied to us who have been preaching this gospel. An "unrelenting Darwinian struggle" as the *Economist* puts it, may be good for the body and the soul of the *hoi polloi*; but the alphas and phi beta kappas of this world were born to rule and to enjoy the fruits of others' labour. So, my dear white collar worker, your company needs you. This is the message to the corporate sector in regard to the white collar worker.

The idea of a separate set of rules for the white collar worker has to be somehow justified, by bending, stretching and applying suitable elastomers to the accepted principles of the capitalist drive for competition and the shifting sands of marginal productivity in relation to employee compensation (in an age of rapid obsolescence of technology and increasing robotisation of production processes).

Let us reproduce the rationale given by the London *Economist* for this new insight into why there should be job security for the white collar worker. "...even among job-hopping Americans, most firms have let employees to assume that, if they made a good effort, their job was reasonably secure unless the firm ran into severe difficulties. This pledge, unwritten though powerful, has helped many firms to survive wren-

ching changes and tough times in the past. It has encouraged employees to see their own long-term interests as intimately bound up with the fortunes of the company. Given a modicum of security, employees have been able to invest time and effort acquiring knowledge about their firm's specific products, technology and customers which would be of little use to most other employers.

"The benefits of this psychological contract supply one reason why big Japanese firms, in contrast to western competitors, are clinging with such tenacity to their system of 'lifetime employment', despite intense pressure to abandon it. Ironically, in the few factories where western firms have copied the Japanese ...flexibility and productivity have soared" (*Economist*, July 17, 1993, p 11).

But the Japanese adopt this policy for *all* employees. The message for the western corporate sector applies for white collar workers only; the blue collar worker can go from pillar to post as robots take over, as 'artificial intelligence' replaces blue collar workers by white collar workers manning computers and ordering robots to do the job earlier handled by blue collar workers. What is good for the gander is not good for the goose.

The forceful argument in favour of job security for white collar workers comes at a time when the International *Business Week* (New York, August 2, 1993), in its cover story 'What's Wrong', gives chilling details of the current economic prospects of the industrially developed countries. In the seven industrially most developed countries (namely, the US, Japan, Germany, Britain, France, Italy, and Canada) unemployment already exceeds 25 million. "In every industrial nation, the combination of global competition and technological change is eliminating jobs and holding down wages. More and more people feel threatened by cheap labour in the emerging capitalist countries. Many industries are up in arms against 'unfair' foreign competitors

The political leaders of the industrial world face mounting calls to shut out trade and immigrants..." (*Business Week*, August 2, 1993, p 35).

Of course, both the *Economist* (in an earlier issue, June 12, 1993) and the *Business Week* argue against the imposition of trade restrictions. But that is not how the *people* in the developed countries, nor their *governments*, see the problem. There are more and more racist attacks against immigrants. From Germany, there are chilling reports of attacks by 'skinheads'—neo-fascist youth, especially in East Germany—against immigrant labour. There are reports of attacks especially against the Turks in Germany, against Africans in France, against Pakistanis, Bangladeshis and Indians in England, against the Koreans in the US.

And the governments of these countries? Why, there is the Dunkel Text in regard to the reform of the GATT; the markets of the developing world must be opened up for the products of developed countries. Trade in 'services' must be opened up. The recognition of Intellectual Property Rights—as per US Patent Laws—must be the starting point of all discussion in regard to trade. Already, the former commerce secretary, Ganesan, has been prodded to speak out in favour of accepting product patents in the area of drugs manufacture. While Hillary Clinton is fighting the American drug companies in the US and recommending the use of only 'generic' names—instead of high-priced specific product patents—for life-saving drugs, we are being prodded to switch over from the extant system of only process patents to product patents for drugs. Again, what is sauce for the goose cannot be sauce for the gander.

There is an inherent asymmetry in all principles under the present international order, an asymmetry which goes back to the roots of the capitalist system. This is neither the time nor the place to argue in favour of a socialist system; does not the collapse of the so-called socialist economies of eastern Europe provide clinching argument in favour of both the capitalist system and the market economy? But then, the market cannot obviously be made totally free; the market system must be attuned to the interests of the rich, industrially developed societies (and within these societies, to the interests of the elitist, white collar workers). The peace and tranquillity of capitalist development after the second world war—fashioned under the tutelage of the Britton Woods twins, the IMF and the World Bank—got rudely disturbed by the perfidious Arabs who formed a cartel to demand a

more equitable price for a finite resource they had in abundant measure—crude oil for supplying the energy needs of the industrially developed countries. In November 1973, the oil price hike put the final nails in the coffin of the Breton Woods agreement. In any case the patient had already become terminally sick after the abandonment of the gold parity clause for the US dollar in 1971 and the subsequent breakdown of the Smithsonian agreement of 1972.

The manifest absurdity of an international exchange system, where one country (namely, the US) goes on having an almost perpetual deficit in its balance of payments, did not occur to the leading country of the capitalist world. Initially, this arrangement suited the other countries because it helped countries (like Japan and West Germany) to rebuild their war-ravaged economies through increased exports, and for some time it also provided the required additional liquidity necessary for growing world trade. There were protests from many other countries, most notably from France, during the 1960s; and early in the 1970s, the system broke down when the US went back on its pledge to redeem dollars for gold at the earlier fixed parity of \$ 35 per troy ounce. That the required international liquidity could be provided through a more equitable system of distribution of SDRs by the IMI was demonstrated later, but even today, there is no clear agreement among the G-7 countries on what would constitute an adequate basis for the distribution of additional SDRs (since the extant system of such distribution of SDRs in terms of quotas held by different countries in the IMI is neither equitable nor an adequate response to the needs of additional liquidity).

But then, that there is lack of agreement on the issue is embedded in the very nature of capitalism; for the concept of 'enlightened self-interest' propounded by Adam Smith (way back in the 18th century) is not really enlightened, it is overwhelmingly influenced by mercantilistic 'beggar thy neighbour' policies, and of pure unadulterated self-interest.

It is also part of the nature and the characteristics of modern capitalism to create unemployment. Since the early 1970s, economic discussion in the capitalist countries has focused on what should be the minimum level of unemployment to keep the economy from overheating (or, in essence, to keep down the demand for wage increases). Full employment is no longer accepted as a criterion for policy-making. More importantly, it is in the nature of modern capitalism to displace labour (by the introduction of more capital-intensive forms of production). Recent developments in the areas of 'artificial intelligence' (by way of computers) and of microbiology have also made industrial production much

more oriented to scientific and technical knowledge, and increasingly less oriented to blue collar production activity. Hence, the increasing importance of the white collar worker, hence the increasing redundancy of blue collar worker. Even developed countries are now beginning to experience a widening gulf between the standards of living of the socially and economically advantaged sections of the population and the socially and educationally disadvantaged sections. The blacks, the Hispanics in America now belong to the latter; and last year's racial riots in Los Angeles is evidence, if evidence were necessary, of the rifts that are beginning to rupture American society. And now, with the spectre of joblessness threatening the hitherto employed people, the ire of the Germans, the French, the Englishmen is now concentrated on the immigrants—those who once supplied cheap labour and helped these countries to grow.

Quite obviously, what is sauce for the goose is not sauce for the gander. It has never been so; and with the failure of the socialist experiment in the erstwhile USSR—never mind for what reasons—it is a free for all in the developed countries. The so-called 'liberal' thinking of the likes of Jeremy Bentham (in 19th century Britain), of Rousseau in France (in the 18th century) is giving way to an exercise in the rationalisation of an exploitative, imperialistic situation in the world, embodied in the Dunkel proposals for GATT reform, with Machiavellian skill.

This is the international setting. And it is in this international setting that we have chosen to suddenly 'globalise' the Indian economy. Let us not fool ourselves. Those in India who are pressing for globalisation of the Indian economy stand to gain from this process. But what percentage of the Indian population do these people constitute? If, say, 100 to 150 million Indians stand to gain from this process—at the cost of the rest of the 880 millions—we have 11 to 17 per cent of Indians who stand to gain from the process. Give or take a few million, and say, anything from 10 to 20 per cent of the Indian population stands to gain from the ongoing process of economic reform in India. And make no mistake, 20 per cent of the population is a large number. An educationally backward society, a primarily rural society which has never known real democracy, can easily be run by 20 per cent of the population, provided the latter are clever, skilled and ruthless. So far, there has been demonstrable manifestation of cleverness and skill. The ruthlessness is still not wholly apparent, but it can easily follow. Then we have the makings of a fascist state.

Once we accept the legitimacy of the concept that what is sauce for the goose is not sauce for the gander, we have given up the basis of democracy, we have abrogated our Constitution. May be, this is an inevitable process. But do the 15 to 20 per cent intelligent men and women who keep chanting 'what is the alternative?' realise what precisely they are supporting?

From Crisis to Convertibility The External Value of the Rupee

R.K. Seshadri Former Executive Director, Reserve Bank of India (1966-73)

This book provides a carefully documented history, based on original sources and references, of the evolution of exchange rate policy together with an analysis of the background in which key decisions have been taken. It offers a summary of economic theories in so far as they are relevant for determining exchange rates and goes on to consider the wider implication in the external value of the rupee. In this rare analysis, R K Seshadri emphasises the need for some structural changes in the Indian financial system for fiscal and financial discipline at all levels and for greater attention to the real and fundamental problems involved in increasing our exports. An attempt has also been made to assess future prospects.

This book is brought out by Orient Longman in association with the Indian Merchants' Chamber Economic Research and Training Foundation.

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Report on Prisons

A G Noorani

The Global Report on Prisons of the Human Rights Watch organisation, which contains a section on India, is a very valuable work of reference for social workers and civil libertarians interested in conditions in our prisons and their improvement to accord with human rights.

IN 1978 a group of publishers, lawyers and other activists set up an organisation called Helsinki Watch whose task was to oversee the working of the famous Helsinki Accords. The Final Act of the conference on Security and Co-operation in Europe—to give its full title—was concluded at Helsinki on August 1, 1975. Thirty European states signed it, ranging from San Marino to the former Soviet Union. So did the US, Canada, Cyprus and Malta. Algeria, Egypt, Israel, Morocco, Syria and Tunisia made statements at the conference as non-participating Mediterranean states. The exercise had begun two years earlier at Helsinki on July 3, 1973, largely on Soviet initiative. The Soviet Union soon began advocating the adoption of the 'Helsinki process' by Asian states. During the negotiations, the western states insisted that, as well as issues of security, those concerning human rights should also be covered by the proposed accords. The Final Act provided the umbrella for accords on a good many topics. Part A (vii) dealt with "respect for human rights and fundamental freedoms, including the freedom of thought, conscience, religion or belief". In thus concluding an international treaty on the subject, the countries concerned implicitly accepted the principle that human rights is a matter of international concern, not one of domestic concern exclusively.

Like Topsy, Helsinki Watch simply grew. Today it includes, besides Americas Watch, also Africa Watch, Middle East Watch and Asia Watch, which our government loves to denigrate. There are besides three collaborative projects, the Arms Project, the Women's Rights Project and the Prison Project. They function under the umbrella organisation, Human Rights Watch. The last project has published reports on prison conditions in the US, Britain, the former Soviet Union, Israel and Israeli occupied West Bank and Gaza Strip and a good many other states, including India.

Persons who undertake such noble work deserve respect and support, not scorn and denigration just because Asia Watch exposes the crimes committed by BSF personnel in Kashmir. Such chauvinism is unworthy of Indians. Our civil liberties bodies should actively collaborate with Asia Watch and its sister organisations functioning under the auspices of the Human Rights Watch.

In June 1993 appeared *The Human Rights Watch Global Report on Prisons*. Its principal author is Joanna Weschlei, director of the Prison Project of Human Rights Watch. Her deep commitment to the cause is matched by a passion for thoroughness. A large number of staff members and consultants wrote or researched the country chapters. Sections were contributed by David Rosenberg, a lawyer and consultant.

Nineteen countries are covered by the report; to name a few, the US, Britain, Russia, China, South Africa, Israel and the Israeli occupied territories and India. The section on India (pp 167-72) is noteworthy for its fairness. These paras sum up a lot:

Human Rights Watch conducted a two-week investigation of prison conditions in India in October 1990. Despite extensive efforts by the participants in this investigation to obtain access to Indian prisons, they did not succeed. Moreover, even though Indian officials were apprised in several different ways of the dates and purposes of the investigation, some Indian authorities treated the participants as though they had entered India covertly and for a devious purpose. Immediately prior to leaving India, both delegation members were separately detained briefly by officers of the Bombay Police Special Branch and interrogated about the details of their stay in India. The April 1991 report, *Prison Conditions in India*, was based on interviews with former prisoners; lawyers who have represented inmates; leaders of India's human rights groups; doctors associated with post-mortem

examinations; and scholars who have studied the prisons and the police lock-ups; and on documentary material.

Though reliable nationwide figures are not available, as of 1991 India appears to have confined some 2,50,000 prisoners in more than 1,200 facilities around the country of which more than 800 were police lock-ups and most of the remainder were state prisons. There have been no significant developments reported in the past two years that would alter those numbers substantially. A significant majority are 'undertrials' or prisoners who have not yet been convicted of a crime. The total number of prisoners is very low for a country of 850 million people: the rate is approximately 34 per 1,00,000, far less than one-tenth the rate in the US and lower than almost any reported rate in the world. Unfortunately, a concomitant of the low rate of incarceration is a high degree of summary punishment by the police.

Some of this summary punishment takes place in lock-ups, which are under police jurisdiction. Though Indian law requires arraignment before a magistrate within twenty-four hours, remands to police custody for periods of fourteen days at a time are standard. Torture during remand is commonplace; women held by the police frequently complain of rape and other forms of sexual abuse; and, each year, hundreds of deaths are reported in police custody nationwide. Though independent autopsies are infrequent, the available evidence suggests that the great majority are due to torture.

The Report concludes:

Human Rights Watch was denied access to the Indian prisons and lock-ups. Some access is available to local human rights organisations, but as these do not operate nationally, the only nationwide inspection of the prisons is by government commissions. Every few years or so, such a commission is established—often under the leadership of a prominent member of the judiciary—and issues a scathing report. These do not seem to have made a discernible impact on conditions within the prisons.

The report is very valuable as a work of reference for social workers and civil libertarians interested in prison conditions and their improvement in order to accord with human rights. They will find Appendix D, the Human Rights Watch Questionnaire for Prison Visits, particularly useful. So also the chapters preceding the country reports. They deal with conditions, inmates, daily routine, rules and misrule, isolation and openness and the aspect of

the size of the prison population; the numbers involved. Each chapter concludes with very sensible recommendations.

The Kashmir Times

Thirty years ago when this writer was retained as counsel for Sheikh Abdullah and his colleagues, then on trial in the conspiracy case in Jammu, he discovered that their prime helper, Mridula Sarabhai, bore a deep antipathy to the presence of counsel from England in the trial, however valuable their services. She was insistent that lawyers from India should defend Sheikh Saheb and his colleagues. Reason? "I want them to know and feel that there are Indians who will stand by them and they enjoy the respect and esteem of Indians."

Time has borne out the wisdom of her approach. If such wisdom had inspired the powers that be in New Delhi and Srinagar, the Kashmiris would not have been so deeply alienated from India as they are today.

Happily, there are some who still follow the sensible course. Foremost among them is Ved Bhasin, editor of *The Kashmir Times*, published from Jammu. A veteran socialist and supporter of Jayaprakash Narayan, Bhasin was a friend of Sheikh Abdullah but did not hesitate to cross swords with him at a convention in June 1970.

He has been a consistent advocate of secular values, of Kashmir's autonomy and the rights of Jammu as a region of the great state of Jammu and Kashmir. Not once has he wavered either on the issue of the state's accession to India or Pakistan's military aid to the militants in Kashmir. But he has assessed the situation realistically and honestly—the gun came from Islamabad, the alienation was created by New Delhi. Without it, the gun would not have been grasped by willing hands.

The Kashmir Times attacked the corrupt regime of the Farooq Abdullah-Congress(I) coalition and the violations of civil liberties and exposed consistently the outrages perpetrated by the security forces. Last May *The Kashmir Times* published an interview with the detained JKLF chief, Yasin Malik, in Central Jail, Jammu, by Ved Bhasin along with his senior associate and *The Economic Times* correspondent, O N Kaul. Also present was another militant, Shaikat Bakshi. Along with the interview two photographs of the meeting were published.

That was enough for the *Daily Excelsior* of Jammu, edited and owned by S R Rohmetra, to publish a tirade by a former columnist of *The Kashmir Times*, attacking it for glorifying militants. He

wrote this when everyone had all but forgotten the interview.

What followed thereafter is so well stated by Push Saraf in *Indian Express* of July 6, 1993 as to bear quotation in extenso:

More than the contents of the interview what came in handy for fundamentalist outfits were the photographs. These outfits announced ban on [*The Kashmir Times*, threatened those who sold or read it and also announced the 'ex-communication' of Kaul from the Kashmiri pundit community. All this found prominent place in the columns of *Excelsior*.

The proprietor-editor of *Excelsior*, S R Rohmetra, apparently sensed that he had got the chance to settle an old score. He had faced a regular campaign by *Times* when there were legal proceedings against him for having his printing press in the posh locality of Gandhinagar.

He was uprooted and had to shift his office to the present site of Janipura. He also knew only too well that by exposing *Times'* sympathy for Kashmiri militants he could snatch its circulation base in Jammu.

Rohmetra is convinced that the problems of *Times* are of its own making. "The point is simple. Pro-India forces do not

touch *Times* because it is responsible for the growth of militancy in the valley," he argues.

This must be one of the rare occasions when Rohmetra has taken a stand. He invariably tends to be on the right side of the establishment, accommodates statements and press conferences of all leaders, irrespective of their party affiliations, and runs his paper in a business-like manner.

Bhasin believes in taking specific stand on issues whether one likes it or not. He revels in controversies and can black out a view he does not like. He has all along stood up against regional forces.

Meanwhile, four human rights activists—Kuldip Nayar, Rajinder Sachar, Amrik Singh and Balraj Puri—have announced their decision to take up with the Editors' Guild the matter of attempt by parochial elements and vested interests to pressurise *Times*. "I welcome any probe by Editors' Guild", Rohmetra says.

The Editors' Guild must hear both sides and pronounce a clear verdict. The facts reveal yet another case of pressure tactics against a respected paper, *The Kashmir Times*, and a fearless writer, Ved Bhasin.

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Leadership

Performance – 1992-93

The Company has yet again achieved very good results. Sales and other income at Rs. 2202 crores has shown an increase of 23.4% and Profit Before Tax at Rs. 182 crores has gone up by 25%.

Order booking increased to Rs. 2514 crores - an increase of 28%. As on March 31, 1993 we have a very good order backlog of Rs. 2200 crores.

Hydraulic excavators continue market dominance.

- Two models of wheeled excavators incorporating hydrostatic transmission developed

Supply of Heavy Engineering Equipment – Major breakthroughs

- Almost all critical equipment supplied for Chambal and Tata Fertilizer Projects
- India's largest urea reactor - manufactured at Hazira Works for Tata Chemicals.
- Urea Stripper manufactured to Snam Progetti specifications and supplied to Tata Chemicals.
- Carbamate condenser for IFFCO, Kalol, manufactured to Snam Carbon process another first in India
- Ethylene oxide reactor for S M Dyechem manufactured in sections and successfully assembled and commissioned at site - world's largest E.O. reactor to be fabricated at site
- Four high cold rolling mills supplied to INDAL.

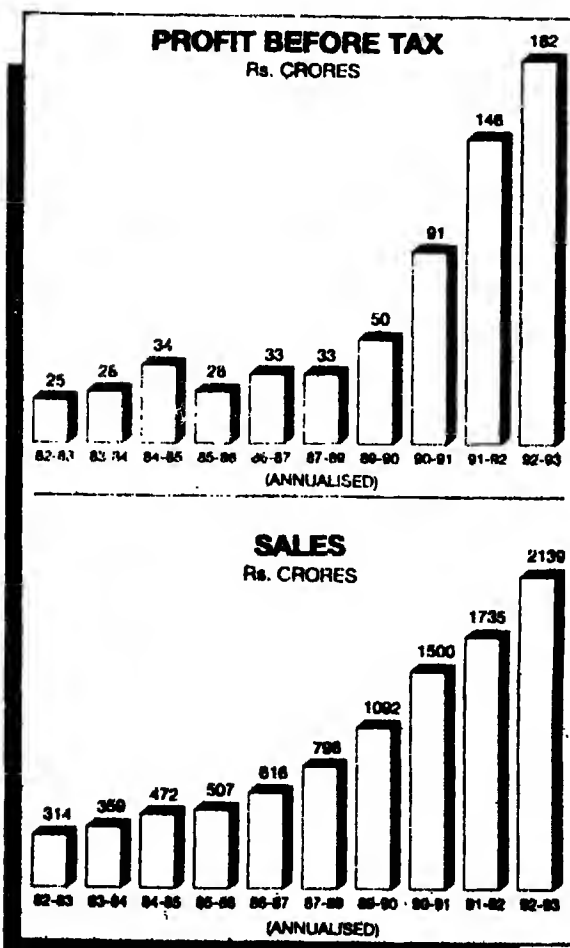
Significant orders secured:

- Supply of machinery for Steckel mill at Salem Steel Plant
- Upgradation of combustion system for Bokaro Steel Plant
- Supply of wagon tippler complex for Rajasthan State Electricity Board.
- Supply of paper machine for Tamil Nadu Newsprints Limited.

Heavy engineering facilities at Powai and Hazira secure ISO 9001 Certificate.

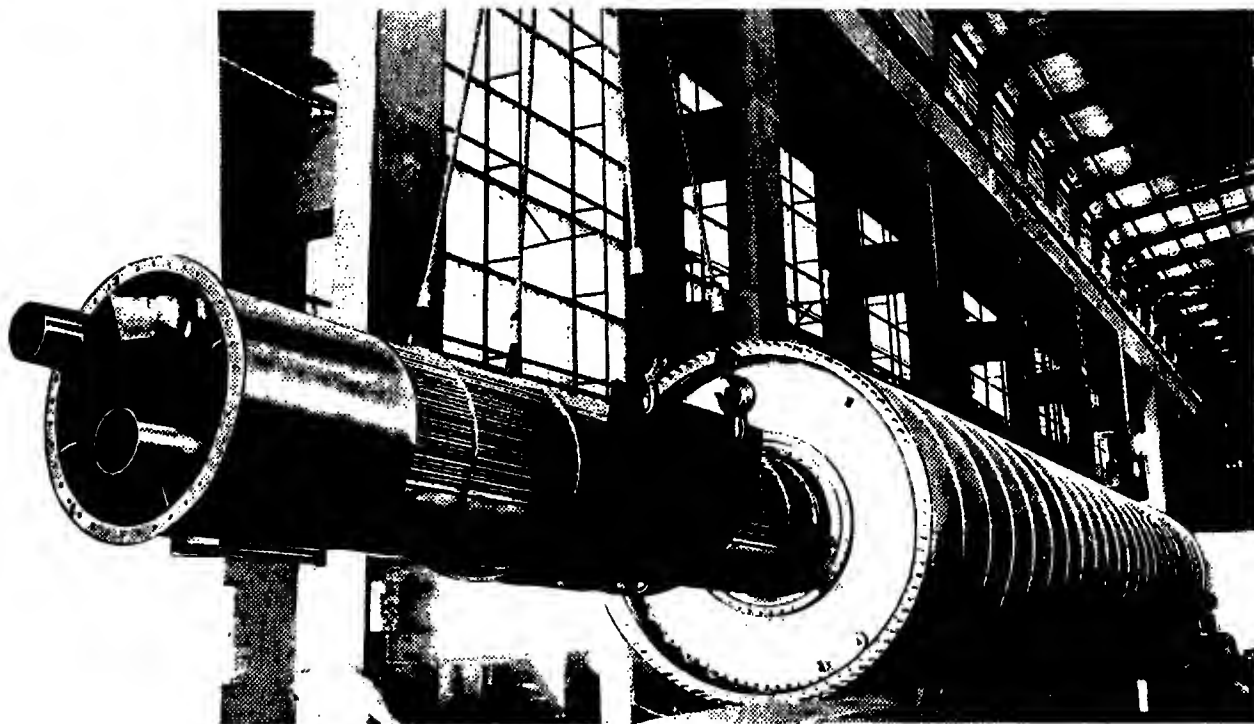
Company continues leadership position in low tension switchgear.

- Major switchboard orders from - Bombay Suburban Electric Supply - Tata Electric Companies - Finolex Pipes - Gujarat Ambuja Cement.
- TF3 type switchboards introduced
- Solid state releases for ACBs being test-marketed.
- Switchgear Training Centre set up at Lucknow - second of its type in the country



In four years, Sales increased 2.7 times...
Profit Before Tax increased 5.5 times

through Quality



Ammonia converter basket - another breakthrough by L&T's Heavy Engineering Group

Electronics business continues rapid growth.

- L&T public switching systems (10,000 lines) installed by Department of Telecommunications

PROJECT BUSINESS - A THRUST AREA

Major projects executed:

- Reformers for Chambal Fertilizers and Tata Chemicals.
- Ethylene storage terminal complex for Finolex Pipes Ltd.
- Commissioning of evaporation plant for Consolidated Fibres & Chemicals Ltd.

Projects under execution:

- Power projects for Tata Chemicals Ltd., Babrala and Mangalore Refineries & Petrochemicals Ltd.
- Automated dairy for NDDB, Gandhinagar - Asia's largest milk process complex.
- Two breweries on a turnkey basis.

Prestigious orders secured:

- Four well head platforms and submarine pipelines for ONGC - the largest order ever won by an Indian company.
- Condensate fractionation unit for ONGC.
- Critical offshore equipment for Mazagon Dock Ltd. and Hindustan Shipyard Ltd.
- Dolomite plant for Tata Refractories Ltd.
- Graphite beneficiation plant for Tamil Nadu Minerals Ltd.
- Design, manufacture, supply, erection and commissioning of wagon tipplers and stacker reclaimer complex for APSEB and NTPC.

CONSTRUCTION

The Company's Construction Group has been growing at a very fast pace and has established a reputation for quality construction.

A 40,000 capacity stadium at Madras was built to international standards in a record time of 260 days.



HRH Prince Albert of Belgium presenting the prestigious Mercurius '92 Award to MD and CEO, Mr. U V. Rao "in recognition of his eminent role in the development of trade between Belgium and India"

A few of the other major awards won by the Company include: • Maharashtra Chapter of the American Concrete Institute Award • 'Builder of the Year 1991' Award from Builders Association of Bihar • RoSPA (Birmingham) Award for Prevention of Accidents • Indian Merchants' Chamber Award for outstanding contribution in cement production • 'World Star '92' Award for Packaging.

Major orders received by the group include design and construction of a 500-bed hospital, college and allied buildings at Gangtok, Sikkim for Manipal Pai Foundation, construction of the 1.2 km long Vasishtha Bridge and construction of a 163 km long road between Rourkela and Sambalpur.

A number of innovative techniques have been developed and successfully implemented for various construction applications.

CEMENT

The Company's cement is continuing its leadership position in the market due to its consistently high quality. Production during the year was 20.42 lakh tonnes.

SHIPPING

The Shipping Group continued to perform well during the year despite marginally lower freight rates caused by worldwide economic recession. The Company acquired a 37,500 dwt handymax bulk carrier.

INTERNATIONAL BUSINESS

- Overseas turnover of Construction Group: Rs. 42 crores.
Rs. 41 crore order received for irrigation project in Nepal.
- Computer software wins acceptance in major overseas companies.

- Packaging and Eutectic products double exports to Sri Lanka, Bangladesh, Mauritius, Nigeria....
- Heavy Engineering Group wins orders from Saudi Arabia, Oman, Bangladesh....
- Switchgear finds markets in Philippines, Indonesia, Mauritius....
- Rs. 1 crore order for switchboards executed in record time in Dubai.

RESEARCH & DEVELOPMENT

Our market-oriented R&D helps introduce new products and processes as well as improve existing products.

- Electronics Group developed ruggedised high power servo system for strategic vehicles.
- Specially designed distributed digital controllers with high speed communication enhance reliability.
- Totally indigenous excavator (Model 72 CK) commercialised. This machine has already achieved significant market share.

A separate Engineering Resource Centre is being set up to accelerate entry into high-tech areas.

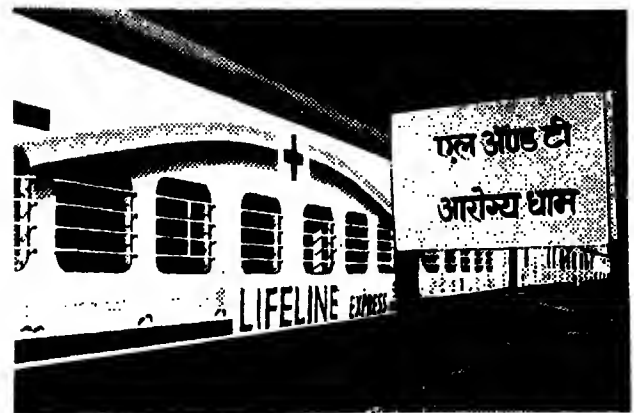
EMPLOYEE RELATIONS

Employee relations at various works and establishments continue to be generally cordial.

Employee co-operation and contribution continue to be an important factor in our growth and success.

COMMUNITY SERVICES

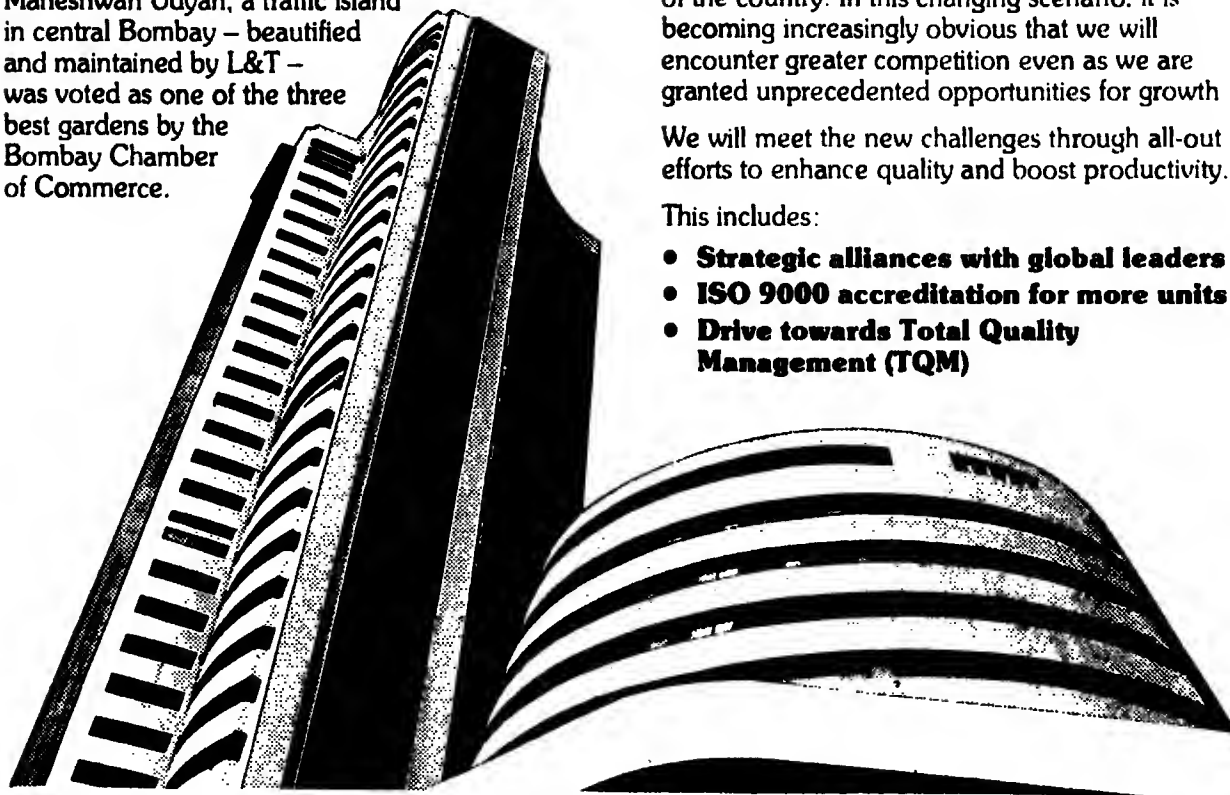
The Company continues to provide community services in family welfare, mother and child care, dermatology and ultra-sonography at the L&T Welfare Centre, Andheri, Bombay.



Lifeline Express – a hospital on rails. Under L&T's sponsorship, it treated patients for polio, cataract and hearing impediments from 590 villages near Awarpur Cement Works.

Won the NASEOH (National Association for Equal Opportunities for the Handicapped) Award for employing the largest number of orthopaedically afflicted persons.

Maheshwari Udyan, a traffic island in central Bombay – beautified and maintained by L&T – was voted as one of the three best gardens by the Bombay Chamber of Commerce.



- Company won numerous prizes at 'Friends of Trees' show.

The Company's deep concern for the environment is reflected in the greening of the landscape around its factories nationwide.

NEW PROJECTS

- Cement grinding plant at Jharsuguda, Orissa – erected in just 9 months – commissioned.
- Hirni cement project, Madhya Pradesh, to be commissioned by March 1994.
- Pipavav cement project, Gujarat, progressing satisfactorily.
- Modern plant for agricultural tractors being set up.
- State-of-the-art glass container plant on anvil.

PROSPECTS

The landmark decisions of the Government are transforming the economic and industrial landscape of the country. In this changing scenario, it is becoming increasingly obvious that we will encounter greater competition even as we are granted unprecedented opportunities for growth.

We will meet the new challenges through all-out efforts to enhance quality and boost productivity.

This includes:

- **Strategic alliances with global leaders**
- **ISO 9000 accreditation for more units**
- **Drive towards Total Quality Management (TQM)**

Bombay Stock Exchange Building – constructed by L&T's Construction Group. The Company earned the gratitude of thousands when the building successfully withstood the impact of a blast in its basement – part of the serial bombings in Bombay in March 1993.

Our objective is to continue to grow at a fast pace, enhance shareholder value and maintain leadership position in our lines of business. With the expansion and diversification plans that we have drawn up, we look forward with great confidence to achieving our set target:

Rs. 10,000 crores by 1999-2000.

(Statement of Mr U.V. Rao, Managing Director & Chief Executive Officer, circulated to shareholders – abridged and adapted for the media).



LARSEN & TOUBRO LIMITED

L&T House, Ballard Estate, Bombay 400 038

STATISTICS

Index Numbers of Wholesale Prices

(1981-82 = 100)	Weight	Latest Week 31-7-93	Variation (per cent)						
			Over Last Month	Over Last Year	Over March 27, 1993	1992-93	1991-92	1990-91	1989-90
All Commodities	100.0	241.3	1.0	5.8	3.5	9.8	13.7	10.3	7.5
Primary Articles	32.3	244.8	2.6	1.8	5.4	7.3	18.1	13.0	2.2
Food Articles	17.4	280.5	1.9	1.2	4.5	12.3	20.2	11.8	1.2
Non-food Articles	10.1	235.4	0.9	-0.4	4.9	-0.6	18.0	17.0	3.6
Fuel, Power, Light and Lubricants	10.7	254.3	—	18.8	3.4	14.1	13.2	12.3	3.6
Manufactured Products	57.0	236.9	0.3	6.0	2.5	10.5	11.3	8.4	11.3

Cost of Living Indices

Base	Latest Month 1992/93	Variation (per cent)						
		Over Last Month	Over Last Year	Over March 1993	1992-93	1991-92	1990-91	1989-90
Industrial Workers 1982 = 100	246 ⁵	0.4	5.1	1.2	9.9	13.5	11.2	6.5
Urban Non-Manual Employees 1984-85 = 100	205 ⁵	—	6.8	6.8	10.4	13.5	11.0	6.9
Agricultural Labourers July 60 to June 61 = 100	1,039 ⁴	-1.3	-0.7	-1.3	12.3	19.3	7.5	3.2

Money and Banking

Unit	Latest Fortnight 23-7-93	Variation (per cent in brackets)						
		Over Last Month	Over Last Year	Over March 31, 1993	1992-93	1991-92	1990-91	1989-90
Money Supply (M ₁)	Rs crore	3,84,218	3,162 (0.8)	43,855 (12.9)	21,553 (5.9)	46,316 (14.7)	49,560 (18.5)	34,486 (14.9)
Net Bank Credit to Government Sector	Rs crore	1,95,620	5,877	25,700	19,531	16,274	24,589	23,048
Bank Credit to Commercial Sector	Rs crore	2,19,599	-691	21,890	3,225	24,389	24,173	21,443
Net Foreign Exch Assets of Banking Sector	Rs crore	28,616	1,253	5,306	2,935	6,155	10,098	1,915
Deposits of Scheduled Commercial Banks	Rs crore	2,79,598	2,363 (0.9)	33,515 (13.6)	12,451 (4.7)	36,389 (15.8)	38,217 (19.8)	25,583 (15.3)
Advances of Scheduled Commercial Banks	Rs crore	1,55,003	-512 (-0.3)	19,389 (14.3)	3,949 (2.6)	25,462 (20.3)	9,291 (8.0)	14,848 (14.6)
Foreign Exchange Assets (excluding gold)	Rs crore	22,396	1,247	5,600	2,200	5,385	10,223	-1,383
	US \$ mn	7,139	411	668	672	746	3,383	-1,137

Index Numbers of Industrial Production

(1980-81 = 100)	Weight	Latest Month (March 93)	Averages for*		Variation (per cent)					
			1992-93	1991-92	1991-92	1990-91	1989-90	1988-89	1987-88	1986-87
General Index	100.0	253.7	215.1 (1.3)	212.3 (-0.1)	-0.1	(-0.2)	8.6	8.7	7.3	7.3
Mining and Quarrying	11.5	276.0	223.5 (0.6)	222.1 (0.4)	0.4	0.4	6.3	7.9	3.8	3.8
Manufacturing	77.1	244.5	205.8 (0.8)	204.2 (-1.7)	-1.7	1.8	8.6	8.7	7.9	7.9
Electricity	11.4	293.6	269.6 (4.9)	257.0 (8.5)	8.5	8.5	10.8	9.5	7.7	7.7
Basic Industries	39.4	..	..	..	..	3.8	5.4	9.9	5.6	5.6
Capital Goods Industries	16.4	..	..	..	..	17.4	22.4	7.0	15.9	15.9
Intermediate Goods Industries	20.5	..	..	..	..	6.1	4.3	11.5	4.8	4.8
Consumer Goods Industries	23.6	..	..	..	..	10.4	6.3	4.2	6.5	6.5
Durable Goods	2.6	..	..	..	..	14.8	1.7	12.0	7.8	7.8
Non-Durable Goods	21.0	..	..	..	..	9.4	7.5	2.5	6.2	6.2

Foreign Trade

Unit	Latest Month (May 93)	Cumulative for*						
		1993-94	1992-93	1992-93	1991-92	1990-91	1989-90	1988-89
Export	Rs crore	5,242	10,832	7,741	53,351 (21.1)	44,042 (35.3)	32,553 (17.6)	27,681 (36.8)
Import	Rs crore	5,413	10,853	10,418	62,923 (31.5)	47,851 (10.8)	43,193 (22.0)	35,416 (25.4)
Balance of Trade	Rs crore	-171	-21	-2,677	-9,572	-3,809	-10,640	-7,735

Employment Exchange Statistics

Unit	Latest Month (Dec 92)	Cumulative for*						
		1992	1991	1992	1991	1990	1989	1988
Number of Applicants on Live Register	Thousand	36,759	36,759	36,300	36,759	36,300	34,632	32,776
Number of Registrations	Thousand	397	5,302	6,238	5,302	6,238	6,541	6,576
Number of Vacancies Notified	Thousand	40	421	460	421	460	490	599
Number of Placements	Thousand	24	240	254	240	254	266	289

National Income

Unit	1992-93	1991-92	1990-91	1989-90	1988-89	1987-88	1986-87	1985-86
Gross Domestic Product (current prices)	Rs crore	2,21,168	2,12,316	3,50,899	2,94,765	2,60,03	2,33,799	2,08,533
Gross Domestic Product (1980-81 prices)	Rs crore	(4.2)	(1.2)	1,88,009	1,70,205	1,63,271	1,56,566	1,50,433
Per Capita Income (1980-81 prices)	Rupees	2,22 ² (2.2)	2,174 (-1.1)	2,069	1,902	1,871	1,844	1,813

* Up to the latest month for the current year and for corresponding period last year. . . . Not available.

Notes: (1) Superscript numeral denotes month to which figure relates, e.g., superscript¹ indicates that the figure is for January and so on.
(2) Figures in brackets denote percentage variations over the comparable period of the previous year.

Sardar Sarovar Project

Review of Resettlement and Rehabilitation in Maharashtra

The tense situation in the Narmada valley today is the outcome of serious problems relating to the rehabilitation of the tribal community. A project symbolising development has caused deprivation of people who have lived beyond 'development' strategies for centuries. As this report of the evaluation and monitoring agency for the Maharashtra submergence villages shows, the resettlement and rehabilitation process is faulty and satisfies neither the requirements of the Narmada Water Disputes Tribunal Award of 1972 or the bench-marks laid down by the World Bank's Independent Review in 1991-92.

THIS report summarises the findings of six years of work completed by the Tata Institute of Social Sciences, in its capacity as the monitoring and evaluation (M and E) agency, for the Maharashtra submergence villages of the Sardar Sarovar Project. The Tata Institute of Social Sciences was appointed for this task by the government of Maharashtra as required by the terms of the contract with the World Bank. The report presents the team's perspectives on the rehabilitation of the displaced, based on the analysis of their own data (not influenced by the opinions of the Narmada Bachao Andolan or the government). These experiences have been documented in 19 reports, that have been circulated among the officials of the government of Maharashtra, the World Bank and other organisations related to the project. Reference is also made, for comparisons, to some findings of the Centre for Social Studies, Gujarat, the official M and E agency for the project affected villages in Gujarat. These have been incorporated for illustrative purposes so as to indicate the commonalities in the displaced persons' experiences across the two states. No claim is, however, made to summarise the Gujarat situation.

Throughout our association with the project, we have urged the government to place the findings within the broader perspective of the entire scope of the rehabilitation of the project affected persons (PAFs). This initial micro-level feedback was regularly provided so as to give useful pointers to issues likely to affect the policy at the macro-level.

The Sardar Sarovar Dam is expected to impound water to the full reservoir level of 455 feet. It will submerge 37,000 hectares (92,500 acres) of land in three states: Gujarat, Maharashtra and Madhya Pradesh. The canal and irrigation systems aggregate to 75,000 km, submerging 85,000 hectares

(2,12,500 acres) of land. The length of the water catchment of the dam is slated to be 123 km. Conservative estimates place the number of displaced at approximately 1,52,000 persons (about 27,000 families as per government estimates), residing in 245 villages of these states, to be affected by the submergence. The break up by states is: Gujarat 23,590; Maharashtra 13,500, and Madhya Pradesh 1,15,000.

In addition, about 1,40,000 farmers are likely to be affected by the canal and irrigation systems, some in a major way and others marginally. The latter, however, will stand to gain from the irrigation when it becomes available. The land purchased from absentee landlords in Gujarat to relocate the PAFs is likely to displace an almost equal number of tenant farmers. Further, people living downstream, numbering thousands more, and those located in the back-water zone, will be affected. Compulsory afforestation, and the development of a sanctuary, will displace hundreds of families, since the consequences of the destruction of the environment are sought to be compensated through these means. One estimate places this category of project affected persons at 42,000 (approximately 7,000 families).

These figures reveal the magnitude of direct and indirect dislocation. No one really knows the exact magnitude of the likely displacement in all its dimensions, and the spin-off effects are yet to be measured. The existing figures on the amount of surplus land available in these states for compensating even the directly displaced are far lower than the required amount. Therefore, whether in fact, sufficient land will be found, is not known.

The Sardar Sarovar project has undergone many financial and economic cost-benefit exercises. As per the government records, the cost-benefit ratio is positive.

However, most of these exercises have been conducted without fully accounting for the social and environmental costs. The Narmada Water Disputes Tribunal (NWDT) Award of 1978 gave its report on R and R based on the critical minimum requirements of resettlement for the displaced. It is not clear whether a detailed costing of the R and R had been undertaken.

The award was hailed as a breakthrough in rehabilitation as it made provisions far beyond those of earlier projects where only cash compensation (often under valued) had been provided. It stated that the project affected persons must:

(a) improve or at least regain the standard of living they were enjoying prior to displacement;

(b) be relocated as village units, 'padas', (hamlets) or families, in accordance with their preference, as far as possible;

(c) become fully integrated within the community in which they are resettled; and,

(d) be provided with appropriate compensation and adequate social and physical rehabilitation infrastructure.

The general compensation package, designed for this purpose, is characterised by state-specific variations with regard to certain aspects. It comprises the following:

(1) A minimum of two hectares (five acres) of irrigated land has to be provided to each landholder. In Maharashtra, one hectare of irrigated land has to be provided to all the landless families, post-1978 encroachers (i.e., those not in possession of title deeds for their lands), major sons, and major unmarried daughters of PAFs. All persons are defined as 'major' if they have attained the age of 18 on January 1, 1987. In Gujarat, the provision of two hectares of irrigated land has been made to all persons of the above categories except the major unmarried daughters. In Madhya Pradesh too, the landed are to receive a minimum of two hectares of land. Those who encroached land before April 4, 1987, are eligible for a minimum of one hectare and a maximum of two hectares of land. Landless major sons from all the families and those with land encroached after April 4, 1987, do not qualify to receive the land. The Maharashtra and Madhya Pradesh PAFs can opt to live in Gujarat according to NWDT Award. In reality, however, this disparity in policy reduces the choices available to the PAFs who wish to move to areas where cultural affinity exists, but the rehabilitation package is less attractive.

(2) There is non-uniformity in the policy across Maharashtra and Gujarat regarding the compensation for land. The PAFs of Maharashtra are entitled to Rs 3,750 to Rs 4,500 per hectare as opposed to the

Gujarat figure which is placed at Rs 10,000 (1990-91 reporting).

(3) In Maharashtra, the PAPs are provided with food ration for a three-month period after shifting. In contrast, in Gujarat (for Maharashtra PAPs) a subsistence allowance of Rs 4,500 is to be paid to all PAP families by the first year after resettlement. In both Gujarat and Maharashtra a resettlement grant of Rs 750, with January 1980 as a base and a rise of 8 per cent for every year; and a grant-in-aid of up to Rs 500 for each family. All this is in addition to compensation for the land.

(4) In Maharashtra, PAPs are entitled to house plots measuring approximately 60 sq mt, while those in Gujarat are entitled to about 68 sq mt. House building loan and subsidy, and free transportation of all salvaged and household material, are also to be provided.

(5) Within agriculture, during the initial period, land is to be developed by the government. There is also to be diversification towards horticulture and cash cropping. Secondary and tertiary activities are to be initiated, including dairy, supported by training and marketing.

(6) Areas have to be demarcated for fuel wood and fodder cultivation.

(7) In the resettlement colony, physical infrastructure is to be provided through the construction of approach and internal roads, transport facilities, drinking water, domestic and street lighting, and residential and day schools.

Several policies were not included in the original package. For instance, financial compensation is now provided to the PAPs for a year after they move to the new location site. This was introduced when it was realised that it takes some time to clear rocks and roots/ground level growth, so as to permit cultivation. Another problem was of 'tapu' lands, i.e. lands becoming surrounded by flood waters, thus becoming islands rendered inaccessible to the owner. Some of these policy changes have resulted from the R and R monitoring feedback and several others from the organisation of people by NGOs demanding change.

It is evident from the above package that the governments of Maharashtra and Madhya Pradesh do not have policies equivalent to that of the government of Gujarat. Therefore, non-parity between packages across states has created complications for the PAPs in terms of the real choices available. Even then, the provisions currently available to the Sardar Sarovar PAPs in these states are relatively better compared to the benefits available to similar categories of people affected by other such projects.

Moreover, prior to completion of negotiations on the issue of the loan, the World

Bank had not appraised the R and R component. It, therefore, asked Scudder, an expert on resettlement issues, to analyse the situation related to the extent of displacement, and the R and R measures adopted by the state governments. After his review in 1984, he concluded that the resettlement of the displaced was likely to occur in a very unfavourable environment. India's past record of reservoir related relocation did not meet the World Bank standards. The provisions of the award represented a major advance in India, yet they did not meet the requirements of the World Bank policy guidelines on involuntary resettlement.

Six years later, in 1991-92, the World Bank deputed the Morse Commission (The Independent Review) to conduct a further appraisal of the progress of the project with specific regard to the R and R and the amelioration of the environmental impact of all the aspects of the project. The commission concluded that environmental and social trade-offs have been made without a full understanding of the consequences.

The social and environmental costs were understated; as a result, the financial benefits of the dam tended to be overstated. Further, it was maintained that the rehabilitation of all the displaced would be impossible under the present circumstances. The World Bank agreed to continue funding the project on the condition that the Indian government met six bench-marks related to the R and R component by April 1993. These were:

(1) Satisfactory improvement of the data describing the number of PAPs in the reservoir area, including an analysis of the affected tribal people. The governments of Maharashtra and Madhya Pradesh were expected to agree on the interpretation of eligibility criteria applying to various PAPs, including the landless agricultural labourers and major sons.

(2) Preparation of satisfactory resettlement and rehabilitation plans in all the three states.

(3) Adaptation of strengthened institutional arrangements for the implementation

TABLE 1: PERCENTAGE DISTRIBUTION OF HOUSEHOLDS BY LAND HOLDING STATUS (ONLY OF FAMILIES PRESENT AT TIME OF SURVEY)

Particulars	Village Names							All
	Dhan-khedi	Chimal-khedi	Sinduri	Bamni	Danel	Mukhadi	Mani-beli	
No having only own land	5.0	28.6	40.3	5.6	9.5	3.7		14.8
No having only encroached land	36.7	—	24.2	24.1	20.3	16.7	91.9	29.2
No having only shared land	3.3	30.2	9.7	—	9.5	22.2		9.7
No having own land + encroached land	10.0	20.6	28.5	22.2	21.6	25.9		20.5
No having shared land + encroached land	25.0	17.5	7	44.4	39.2	29.6		21.6
No having no land	3.3	3.1	5	3.7	—	1.9	8.1	3.6
No having saibara	3.3	—	—	—	—	—		
No having saibara + encroached land	11.7	—	—	—	—	—		
No having sharing + saibara + encroached land	1.7	—	—	—	—	—		0.2
Unspecified	—	—	2	—	—	—		0.4
All households	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Average land owned per family	5.25	3.35	2.82	3.12	4.22	3.28	3.86	3.81

of R and R, including an appropriate role for local non-governmental organisations.

(4) Satisfactory demonstration of improved consultation practices.

(5) Satisfactory demonstration of the feasibility of getting land in Maharashtra and Madhya Pradesh.

(6) Development of a satisfactory policy package for canal affected families.

All these tasks should have been completed before the government of India gave clearance to commence work in 1987. The tasks were not completed even by March 1993, creating conditions under which World Bank funding became impossible.

This summary seeks to examine the extent to which it has been possible for the governments to meet the terms and conditions elaborated in the award and as per R and R related World Bank benchmarks.

TRIBAL SITUATION

No attempt is made here to glorify the tribal situation, as life in these areas is both arduous and rigorous. Instead, their well-being is defined as seen from the point of view of the tribals themselves. Thus, social values and life-styles preferred in non-tribal locales need not always coincide with those subscribed to by the tribals of the Narmada Valley. Since the award envisages the assurance of continuity of life for the displaced, rehabilitation has to be examined in terms of the social, cultural and technological matrix of the community and the extent to which the tribals can continue to utilise known practices and skills while coping with a new environment.

A few universal factors can be observed across all tribal subgroups of Akalkuwa and Alrani talukas (the two affected talukas in Maharashtra) as well as those in Gujarat. These are:

(1) The existence of an integrated, self-sufficient and essentially non-monetised economy. Agriculture, cattle rearing, forest and the river provide the main sources of sustenance. (a) Table 1, which pertains to select Maharashtra villages, indicates that land ownership and entitlement in these villages are quite different from those put forth by conventional definitions. People have access to land through a range of methods (owned, shared, and encroached land) which vary across villages. Thus, landlessness in the real sense of the term is virtually non-existent. In Maharashtra, as well as Gujarat, this is as little as 2-4 per cent. In Maharashtra, the average land owned per family ranges from 2.82 to 5.25 hectares while in Gujarat, it ranges from 1.6 to 10 hectares. More than half the land under cultivation in Gujarat is of the non-revenue category (so-called encroached). In Maharashtra, a large quantum of land was not treated as revenue land because the

1975 land survey remained incomplete and till 1980, no land survey had been undertaken in these villages. (b) The second reason for land not being registered in a family's name is related to non-transference of title deeds. Though the number of families has increased and the lineage expanded, no effort was made to transfer the divided land to the name of the inheritor. This was unimportant in the prevailing tribal context. In actuality, the notion of encroachment is alien here, as the output from encroached land does not differ from owned land. (c) The average yield per hectare meets the food requirements of the people. The major items cultivated are indicated in the section on consumption. The fertility of this (semi-grade) soil has not deteriorated due to minimal application of chemical fertilisers; instead manure is utilised, especially since the people own large livestock. (d) Table 2 indicates that an average family in Maharashtra owns up to nine to 10 animals. In Gujarat, as well, on an average, families possess 11 animals. Poultry too are owned in abundance. The output from agriculture is thus substantially supplemented by livestock (milk, meat, eggs etc). (e) Proximity to the river and forest has provided additional supplements. Most households catch fish at least four times a week. The forest provides a range of food items and adequate fuel and firewood. Every household in Gujarat and Maharashtra consumes a minimum of five to eight kgs of fuel wood per day, with an increase in the winter and monsoon months. (f) Bamboo and wood are also gathered for house construction. In Gujarat, 27.31 per cent of the people are engaged in cattle grazing, 30 per cent in firewood collection, and one fifth in collection of minor forest produce. Existence of these complementary production sources has prevented the emergence of unemployment.

(2) The consequence of such an economy is a fairly high consumption level. The consumption patterns are varied and fluctuate across seasons. The principal source of consumption is land, while cattle, river and forest produce play a significant role. For example, in one village up to 16 per cent of the total consumption comes from the forest in the monsoon months. It needs to be mentioned that wage labour is not an important source of income in these villages.

This is significant as it implies adequacy and self-sufficiency of the economy.

Table 3 indicates that the per capita calorie intake is about 2,527 in Maharashtra while in Gujarat it is 2,418 calories. Considerable diversity too, is noted in the items of consumption: maize, jowar, bajri, a range of local millets ('badal', 'banti', 'mor') 'til', mahua seeds and pulses ('udid' and 'tur'), milk and its products, fruits, fish and meat. There is virtually no hunger, even in the summer, as the river-bed is used for cultivating vegetables and for catching fish in shallow waters. Leaves, tubers, stems, fruits and vegetables from the forest, also make up the tribal diet.

(3) This community is minimally dependent on the market as most items produced are largely consumed locally. A major portion of til and a small quantity of udid and tur, harvested by the households, is sold in order to purchase essential items such as clothes, utensils, tobacco, sugar, salt and jewellery. 'Ambadi' seeds are exchanged for salt and spices. The people also visit the market to sell their surplus livestock. The house is constructed of material obtained from the forest; tiles are prepared by each family; and basket-making and pottery are skills every family possesses for its utensils and storage requirements. All of these indicate a high degree of self-sufficiency in the submergence villages. Even if there is no saving, there is no indebtedness, since this is a largely non-monetised economy.

(4) People reside in spacious and comfortable houses made out of teak wood, thatch, mud and bamboo. These are not the stereotyped concept of the village hut. The size of the houses range from 50 to 100 sq mt.

TABLE 3 PER CAPITA CALORIE INTAKE IN EIGHT VILLAGES (IN AKKALKUWA TALUKA)

Villages	Average Consumption (Calories)
Dhankhedi	2942
Chimalkhedi	2618
Sinduri	2359
Bamni	2375
Mukhadi	2583
Danel	2178
Manibeti	2182
Gaman	2682
Total (average)	2527

TABLE 2: CATTLE POPULATION PER FAMILY IN EIGHT VILLAGES (IN AKKALKUWA TALUKA)

Animals	Villages							
	Dhankhedi	Chimalkhedi	Sinduri	Bamni	Danel	Mukhadi	Manibeti	Gaman
Bullocks	2.4	2.1	2.6	2.8	2.5	2.8	2.8	2.8
Cows	1.7	1.3	1.5	1.7	1.3	1.8	1.0	1.2
Goats	4.8	2.0	7.4	3.5	1.9	3.8	6.44	3.3
Buffaloes	0.3	0.3	0.3	0.8	0.2	0.6	—	0.7



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*Speech of Shri B.G. Deshmukh, I.A.S. (Retd.)
Chairman, Siporex India Ltd. delivered at the
24th Annual General Meeting
held on 9th August, 1993.*

Ladies and Gentlemen,

On behalf of the Board of Directors and myself, I have great pleasure in welcoming you all to your Company's Twenty-fourth Annual General Meeting. The Audited Accounts and Directors' Report have been with you for sometime and with your permission I shall take them as read.

SOCIO-ECONOMIC AND POLITICAL ENVIRONMENT:

When we met at the last AGM, it was after a year of momentous changes in the world and in India. We were experiencing the winds of changes on the economic front. The problems of Balance of Payment and inflation that had assumed dangerous proportions in 1991 had been contained, and with a good monsoon, we were looking forward to a more rapid economic development. However, the catalytic events like the Securities and Banks Scam, Ayodhya, riots and Bomb blasts etc. slowed down the pace. The process of economic liberalisation was reaffirmed by the Union Budget of 1993 by adopting major changes in indirect taxation and full convertibility of the rupee on trade account.

It is not necessary to change the policies and tax regimes only to bring rapid economic development, but the practices and approaches of the persons entrusted with the implementation of the same must also be changed. All the liberal policies initiated by the Centre will come to nought if the states do not follow suit. There is today a vested interest group both at the Centre and in the States that feel deprived and who are resisting the pace of change, and putting hurdles. We must not fall into the traps laid down by these groups if we have to catch up with the rest of the world.

PERFORMANCE:

Performance of your Company has been good during the year under report as compared to the previous year. Your Company has earned good profits and expects to maintain the sales and profits during the current year ending March 1994.

I am glad to inform you that your Company has started a new undertaking for manufacturing Scaffolding frames in the last year and has earned good profits from the said undertaking.

FUTURE PROSPECTS:

Your Company expects to export Siporex products to Mauritius, Yemen etc. I am also glad to inform you that with requisite consents, your Company intends to diversify into new areas, where your Company has promising future i.e. power generation, effluent treatment lease and hire purchase business etc.

ACKNOWLEDGEMENT:

I would like to thank our collaborators for their continued support. I would also like to thank the Government of Maharashtra, Industrial Development Bank of India and other Financial Institutions for their continued support and interest in your Company. Thanks are due to the Central Bank of India for providing financial assistance to your Company from time to time. I also thank my colleagues on the Board for their counsel, contribution, guidance and excellent cooperation. I thank the employees for their efforts, the users of Siporex material and the suppliers in achieving the year's working results.

Note: This does not purport to be the proceedings of the Annual General Meeting.

(5) These villages are characterised by close family ties and strong intra- and inter-village networks. Relationships of patronage and exploitation are absent. Instead, reciprocity permeates all interactions, evident during the agricultural season, at the time of house construction, or on ritual occasions (including marriage). This is evident from the fact that the component of wage labour, referred to earlier, never exceeds 3-5 per cent of anybody's major activity. Services are not hired but exchanged and only food and tobacco are provided for the days when such help is used. Strong inter-village networks also result from the establishment of affinal ties across village boundaries. Leadership is customary (i.e., the headship usually is located within a single family), but the head is chosen based on his capability. Decision-making is not entirely his prerogative; every single adult has the right to express his/her view.

(6) Women occupy a special position in these villages. This is evident from the roles performed by them, their contribution to the economy, decision-making powers vested in them, and the nature of interaction with men and with the wider society. An open admission of the high premium placed on women, is the payment of bride price at the time of marriage. The women perform a multiplicity of roles as they shoulder a large burden of the agricultural work, look after the livestock, do all the housework, make utensils, fetch water, gather minor forest produce, etc. Rather than being exploited, they are valued for their capability. They are seen taking important decisions within the household and outside. These decisions are wide ranging, pertaining to agriculture, selection of spouses, opting for resettlement, etc. High fertility rates and a good health status have prevailed. No incidents of wife battering have been recorded, despite regular alcohol consumption. The women consume alcohol and smoke bidis, against which there is no social sanction. Unequal power equations between genders are not evident.

(7) There is poor access to the formal health care, child welfare and educational facilities, due to isolation. Such facilities have not been adequately extended to them. This is a definite lacuna, yet people's health status is not very poor. They avail of an array of medicinal plants from the forest and only in the case of serious illness, they go many kilometres to seek medical help. Their current life-style precludes the need for formal education. This, however, restricts their opportunities while attempting to move beyond their isolated surroundings.

The above description indicates the nature of the community being dealt with and the rehabilitation programme required.

R and R: In Award and World Bank Terms

(1) *Survey of PAPs*: The project work was to be preceded by a comprehensive appraisal regarding displacement and plans for rehabilitation; but the government of India granted permission for the commencement of work on the condition that such studies will be commissioned and comprehensive plans will be submitted by 1989. This did not occur. Even subsequent to the World Bank conditions (1992), no comprehensive studies were commissioned between October 1992 to April 1993. As mentioned earlier, according to Scudder's report, the extent of displacement was not known and, hence, no clear plans for resettlement could be envisaged. The award and certain World Bank benchmarks assume relevance only if these aspects are clearly explicated.

As the state governments are still not aware of the exact extent of displacement, assurance cannot be provided that all PAPs would be appropriately rehabilitated. A simple calculation, based on the Maharashtra and Gujarat baseline village studies, shows that each family, on an average, owns or has access to two to five hectares of land. Hence, even at the minimum norm, for the Maharashtra PAPs alone, about 7,000 to 8,000 hectares of cultivable land is required. This is evident from some sample data in Table 4.

The government of Maharashtra obtained 2,700 hectares of forest land, to be cleared for purposes of resettlement. Since additional land was required for persons newly designated as PAPs, due to policy changes, another 1,500 hectares is being considered for this purpose. However, it should be noted that the PAPs also subsisted on cattle rearing, forest and river produce. In the past, as their families grew and older sons

established nuclear families, they could clear additional forest land. In the new settlement colonies, there is no river and access to forest is restricted. Also, expandability of land is not a feasible proposition. Thus, even if a total of 4,000 hectares of land is released by the government, it will prove to be inadequate as families grow and have to seek an alternate livelihood for which there is no provision in the resettlement colonies. It is anticipated that they will be reduced to landless and, possibly, even migrant wage labourers.

It is also doubtful whether Gujarat would be able to make available the required land for all those from the other two states, who indicate their preference for relocation in Gujarat, in view of the fact that Gujarat buys land at a rate of Rs 35,000 to Rs 75,000 per hectare, and the land prices are expected to continue to escalate since Government is acquiring so much land. The per family, financial allocation for rehabilitation is in the range Rs 1 lakh to 1.25 lakh only. This is clearly not adequate to meet procedural and incidental costs and other expenses, in addition to land costs.

(2) *Maintaining integration of village community*: An important element of the award was the relocation of PAPs in units of their preference. However, due to the non-availability of large land plots, they are unable to express their preferences. In most resettlement colonies, there is no possibility of relocating an entire village. (The Taloda forest in Maharashtra provides such an option but due to non-parity of packages between Gujarat and Maharashtra, those opting for this site stand to lose in economic terms.) In fact, even pada members (group of inter-dependent families), and major sons and daughters have not been resettled together with their families. This poses new problems in an inter-dependent

TABLE 4: QUANTITY OF AGRICULTURAL LAND REQUIRED FOR COMPENSATION

Particulars	Villager						All Six Villages total
	Dhank-hedi	Chimal-khed	Sindori	Bamno	Danel	Mukhadi	
1 Number landed and landless adults and major sons as on 1981 cut-off point	63	69	98	62	93	75	460
2 Agricultural land required as per 1 (hectares)	126	138	196	124	186	150	920
3 Number landed and landless adults and major sons as on 1988 cut-off point	75	96	131	83	116	106	607
4 Agricultural land required as per 3 (hectares)	150	192	262	166	232	202	1204

society and economy. For the Maharashtra PAPs, the most striking example in this regard, is in the first resettlement colony of Parveta (Gujarat), which is inhabited by families from Manibeli (a submerging village in Maharashtra), but the major sons had to go elsewhere--Lunadra and Sihandra (Gujarat).

Maintaining village as well as community integration has been problematic as there are factors beyond economic imperatives influencing the PAPs' decision-making: (a) proximity to forest, and (b) retaining inter-group ties by resettlement at the same sites. For example, the Vasavas and Tadvis (sub-tribes) have expressed the desire to be relocated together. The Tadvis have been more inclined to avail of the Gujarat option while the Vasavas are interested in residing near the forest. Thus, people have been compelled to opt for one or the other, while both aspects are equally important. The outcome of this is that the villages have been split; in some cases, members of the same pada have been resettled in different colonies, inter-sub-group ties have been broken and families have been divided. Gujarat is resettling its 19 villages in 175 different locations*. From a single village, Khalvani, a group of 46 oustee families were resettled in three different sites: 26 in Chhindipura; 17 in Khadagada; and 3 in Thapavi. Similar problems are occurring in Maharashtra villages.

(3) *Non-submerging hamlets*: There exist problems at yet another level as except a few villages in Gujarat and Manibeli village in Maharashtra, all other villages will not be entirely submerged. A few hamlets are to be left out in each village. People residing in these non-submerging parts are not being resettled but will be left behind in inaccessible mountain areas around the rim of the reservoir. For the non-submerging hamlets in Maharashtra, access to Gujarat will be completely cut-off. Villages along the Narmada river are dependent on Gujarat for its market and for a range of social reasons. Markets on the Maharashtra side are located at a great distance from these hamlets. People living in these truncated villages are also likely to be affected by water borne diseases generated because of the reservoir. They will have no access to health care, because the nearest PHC or sub-centre will be more than a six-hour walk across the Satpura ranges and even those would become inaccessible during monsoon. These isolated hamlets will not constitute viable units wherein survival itself cannot be assured.

(4) *Procedures*: The R and R procedures require that the PAPs be served eviction notices, detailed asset surveys conducted, compensation notices issued and amounts fixed, and submergence notices issued. As

people of this region are illiterate, they are to be explained the meaning of these processes.

In Akkalkuwa taluka (first phase submergence villages), various problems have occurred in the process of application of the minimum requirements. Resistance to eviction is still evident and consultation with PAPs has not been possible in most villages. This is possible only when there is mutual trust and confidence between the affected people and the government. Even persons who have agreed to move, have not opted for it as a desired shift. They are virtually compelled to undertake this step through lack of choice. They see the walls of the dam rising before their eyes and fear that moving will become inevitable. They were never consulted in the first instance when the plans were being prepared for the sharing of the Narmada waters. Now, the government has to exert considerable pressure on the PAPs to relocate in view of the imminent submergence.

In Akkalkuwa again, it has been noted that not all persons whose lands are to be submerged have received the required notices. The level of awareness is not very high either as a number of people who are to be affected by submergence do not know this. There are others who believe that their lands will be submerged but do not feature in the submergence list of the government. There are 97 persons who maintain that they are to be exposed to submergence but have not received notices. At least 31 PAPs from these villages have also not received compensation notices. Even among those who have received them, some are yet to receive compensation. A total of 107 persons, out of 391, did not receive any form of compensation, till early 1993. In Akrani taluka, an entire village did not receive compensation notices 'sikka'; in Paula village, the eviction notices were left at the headman's house, and were consumed by white ants.

In Gujarat, the PAPs who moved to Tentulav and Amabavadi settlements maintain that they received an equal amount or more agricultural land than owned by them in their original villages. However, in Parveta about 18 per cent claimed that they received less land. In Chhindipura and Khadaga all the PAPs received smaller plots as compared to their original holdings. In 1991, 27 per cent of persons resettled in Khadaga and 9 per cent of the Parveta inhabitants were yet to receive land, while 65 per cent of the Gujarat oustees resettled in Parveta stated that they were dissatisfied with the land quality. Moreover, most of the major sons in 11 of the new sites have not received agricultural land and house plots. Forty-eight oustees in Sandhia, Chhindipura and Vaghavali have been given less than the requisite 68 sq mt for housing purposes.

With regard to the process of land selection in Akkalkuwa: 126 persons are still in the process of selecting land; 40 have selected land but are yet to receive title deeds; and 63 have received title deeds but are yet not cultivating their new lands as they have not been completely rehabilitated.

A series of discrepancies have been noted in the land selection and identification process in Gujarat. People have been shown a specific piece of land but allotted an alternative one, of poorer quality. In some cases, the land allotment has been cancelled after being sanctioned. There have also been instances, where more than one person has been allotted the same piece of land. In general, the choices offered to PAPs have been minimal, if at all. The PAPs are compelled to wait for long periods outside the rehabilitation office for submitting applications and collecting documents to which they are entitled.

In Parveta, the first batch of 81 Maharashtra PAPs received the first instalment of subsistence allowance as late as 1988, although they had shifted in 1985. The shifting allowances in most cases were paid only after a lapse of at least two years. This led to an unwarranted financial burden on the PAPs, because they had to finance the land clearance as well. Each PAP in Parveta incurred an average expenditure of Rs 18,000 in the process of resettlement, which was not reimbursed as it exceeded the amount earmarked for this purpose.

A series of problems have also been related to the payment of compensation. The people who have received the amount are dissatisfied as they maintain that the 1985 land survey for regularising encroached land was not complete; hence, all their lands were not recorded and it was difficult to prove that they had been cultivating the land prior to 1978.

Due to non-uniformity of policy across states, the PAPs of Maharashtra received only Rs 3,750 to Rs 4,500 per hectare of land as opposed to Rs 10,000 received by the Gujarat PAPs. This created a feeling of deprivation among the former. A number of cases (at least nine) have been recorded, wherein, people feel that they have not been given adequate choice in land selection. Bureaucratic delays in attending to complaints have further aggravated the problem.

(5) *Strategy for Shifting*: People from Manibeli were motivated to shift to Parveta, unfortunately by adopting the policy of 'first come best served'. The first set of families received good quality of land while those who moved in later were allotted poorer quality of land, sometimes too rocky for cultivation. Thirty-four per cent of the Parveta households (from Maharashtra) applied for alternative lands because of poor quality. Land clearance too was slow; in some cases it took up to three years. Up

to 15 per cent of the families were affected by this slowness of procedures, while 18 households have returned their lands to the government as they were not willing to shift out of Manibeli. In January 1992, 52 eligible persons were still waiting to receive land. Factional feuds have also been recorded, and there is a polarisation, as a few have become richer while the majority have not reaped the same benefits.

In some cases, persons have found plots allotted to them to be unsuitable, but their applications for alternative plots are yet to be considered. The applications of the major sons of a number of PAPs have also to be attended to. In Gujarat too, it has been noted that though the major sons have been declared 'oustees', Yet many of them have not received land or house plots (a point mentioned earlier). As birth certificates cannot be produced and, therefore, disputes have arisen as to whether a person is 18 years or below. In a tribal society, birth certificates, or any other method of marking births or deaths, does not exist.

Such problems have created disenchantment among some who have opted for resettlement, and is compelling others to move back to their original villages after shifting. Tension occurred in March 1992, when efforts were made to forcibly evict people from Manibeli by deploying a large battalion of policemen. The people did not move and the force had to be withdrawn under public pressure. Prolonged confrontation has injected bitterness between the parties.

The process of resettlement is itself traumatic, and adjustment to a new environment requires a congenial and supportive atmosphere. This needs sensitive handling by trained and committed personnel. In its absence, it is no coincidence that families that have shifted to new locations for over a year continue to maintain two abodes: one in the new resettlement colony and the other in the submerging village. They need to buttress the loss of agriculture in the initial stages through cultivation in their original village. This has been noted among the Gujarat PAPs as well. They cultivated land in both old submerging villages and new sites for a period of almost five years. Some families are fractured for several years between the new and the old villages. Often, women and older persons are left behind. Family life is disturbed and it is difficult on the women for whom responsibilities increase with divided household and parallel activities in both locations.

(6) *Changes in Economy:* The dislocation from the valley has eliminated access to river and forest produce. This has resulted in a change in the consumption pattern in the new colonies. Fish and meat have vanished, and while cereals are available and some good crops have been harvested, a general shortage of pulses and vegetables

has been noted in some resettlement colonies. In Parveta, about 23 per cent of the Maharashtra PAPs were recorded to be below the poverty line in 1989. In the resettlement colonies inhabited by the Gujarat PAPs, the average caloric intake per adult is 2,629. Though this is above the required minimum, it is not uniform across the resettlement sites. In Dhefa, Ambavadi, Bhilvashi, Jemalgadh, Kukarda, Parveta and Vaghrali, the average intake per capita is less than 2,400 calories and 16 to 28 per cent of the population in these colonies consume even less than 2,000 calories per head. This has been attributed to low yields and poor employment opportunities outside agriculture.

In 1992, in Parveta (the Maharashtra PAPs resettlement site) with a poor monsoon, wage labour became the only alternative, if and where it could be found. On the aggregate, up to 46 per cent of the households engaged in agricultural wage labour in this village in contrast to only 5 per cent earlier. Contract labour too has begun to surface. In the pre-resettlement situation, the option of expanding land under the plough and availing of forest produce existed to tide over such periods. Wage labour may continue to rise in the future since there are few alternatives/cushions available.

The Gujarat situation is similar, where, 87 per cent of the PAPs maintain that there are less work opportunities in the new sites, except for those resettled in Khadaga. It has been noted that 17 per cent of the population is engaged in casual wage labour for a period of 220 days per year as their main occupation, while 65 per cent of the people are self-employed agriculturists. In addition, 46 per cent are engaged in casual labour as a subsidiary occupation. Approximately, 150 days of employment are generated per year. This is less than the pre-resettlement situation owing to narrowing of the occupational base. Dependency upon agriculture has thus risen, but its ability to absorb people has narrowed.

Regarding the agricultural occupation itself, a few changes are evident. Eighty per cent of the Gross Cropped Area is under foodgrains. On the one hand, there has been the introduction of two new high value crops: wheat and paddy, while, on the other, there has been the loss of local millets such as 'nagli', 'bhanti' and 'bhadi' which added variation to their diets. There has been use of HYV cotton seeds, and fertilisers such as di-ammonium phosphate, and plant protection chemicals. Despite this, higher yields have been recorded only in 10 per cent of the irrigated cropped area. Yields in the dry lands of Ambavadi, Bhilvashi, Dhamadra, Dhefa, Gora, Parveta and Vaviyala (all in Gujarat) have been extremely low. The value of the average yield per acre is Rs 1,032 which is lower than the district yield value of Rs 1,500 to Rs 1,800 per acre. The farm

economy is, thus, weak in the sites which do not have irrigated agricultural land. Out of the 21 colonies monitored in Gujarat, in four there are no irrigation facilities; in nine, less than 10 per cent of the area is irrigated while in the remaining seven, less than 20 per cent is irrigated.

In Defa, it is feared that farming households will transform to casual labouring ones. A decline in reciprocal labour has also been noted, bringing a new dimension into the agricultural system. People in these resettlement colonies have not gone in for serious investment in land as there is some confusion regarding the interpretation of land allotment rules, short changing of land, and canal or road expected to pass through the allotted plot.

The maintenance of large herds of cattle and goats by both the Maharashtra and the Gujarat PAPs has become problematic due to inadequate pasture lands. This is particularly acute for the latter, as in many colonies no grazing has been reported. The grazing land that exists in the resettlement sites, has to be shared with the people of the host village. A large number of persons have also sold their cattle due to this problem. They have reduced the numbers in their livestock and feed them on the stubble after harvesting the crops. A number of PAPs have left considerable livestock in their original villages where adequate pasture is available. Among the Gujarat PAPs, a decline in milk consumption has been recorded. In fact, sheep-herding as an occupation has become insignificant in most Gujarat settlement colonies.

Excessive dependency on land and integration into the market economy, has reduced the earlier self-sufficiency and, thereby, created indebtedness in a market economy where only cash can obtain their requirements. People now have to purchase certain items (both food and non-food) which were earlier obtained gratis from the local environment; e.g. grain, oil, vegetables, pulses and seeds. Expenditure on new items has also been recorded: e.g. fertilisers and pesticides. In Parveta, 80 per cent of the Maharashtra PAP households have taken loans in the range of Rs 1,500 to Rs 3,000, partly for meeting their agricultural needs and partly for shortfalls in consumption. In the other four Gujarat resettlement sites where families from Maharashtra have settled, six out of the eight (families) studied, have become indebted. Loans ranging from Rs 1,000 to Rs 26,000 were taken from relatives and moneylenders. Hence, while increased availability of cash is cited as an improvement over their earlier living, in fact, their standards have fallen because it is insufficient to meet their needs.

(7) *Problems of Encroachers:* Families in the submergence villages have cultivated these lands since generations without 'pattas'

(title deeds). Whenever a family expanded, the members took up additional land, cleared and began to cultivate it. No government official ever visited these areas till the beginning of the project. However, now the non-patta holders are termed 'landless' for purposes of rehabilitation. They are called the encroachers. Since such persons would get only one hectare, their standard of living would be severely affected in a cash economy. This would be against the basic principle of the award: that all displaced should regain at the least, if not improve, their standard of living. This is in contrast to the Gujarat package, wherein, two hectares of land are available for the same category.

(8) *Housing*: Some PAPs have been residing in tin sheds for up to 18 months in a Maharashtra resettlement site (Somaval). These sheds were meant for a transitional period not exceeding six months. They are small, hot in summer and cold in winter and cannot house cattle. The size of the plot, to be given to PAPs, is about 60 sq mt which compares with, perhaps, the smallest of the house plots in the submergence villages (where the houses could be as large as 100 sq mt). They can dismantle and bring their old houses from the original village only after they get the titles to their house plots, agricultural land and the necessary compensation. Until then, they are compelled to leave their houses and some members of the family in the original village. These processes are lengthy; as a result, people are compelled to stay in tin sheds for extended periods.

An expense of about Rs 1,500 has been incurred on house construction by the Maharashtra PAPs (in Parveta) which was not compensated. It would be much more if they did not use the original (indigenous) materials. Besides, for the major sons, new houses need to be built on the land allotted to them. There are schemes under the tribal sub-plan which have yet not been implemented in a co-ordinated manner for the allocation of homesteads and construction of houses.

In Gujarat, several PAPs in 11 new sites complained that they had not been allotted house plots. In Dhefa, the plinth construction work is still not complete. In Jemalgadh, the people are dissatisfied with the plinth construction and wish to undertake the task themselves. The early settlers in the Gujarat sites are disgruntled because they had constructed the plinth at their own expense and have not been compensated for it.

Though the policies provide for housing loans, no such benefit has been extended so far in Maharashtra and Gujarat. People who lived in hill areas, had specific structured houses. Such structures in the resettlement (which are located in the plains) areas are not protective. People have been waiting

ever since they shifted for the subsistence from government to make concrete houses. In fact the tribals are also eligible for house construction assistance due to their scheduled status.

(9) *Status of Women*: A series of changes have been observed in the life and status of women in the resettlement colonies. Earlier, the women were agriculturists and did not have to leave their villages for wage labour. After moving to rehabilitation sites, they have had to engage in wage labour, especially as activities related to tending cattle have reduced and collection of forest produce disappeared. In 36 per cent of the Maharashtra PAP households in Parveta, women's contribution to the total household income through wage labour (mainly in sugarcane cutting) was significant. However, they receive a lower wage as compared to men (only Rs 7 to Rs 10 per day). This is the first expression of gender inequality in the relocation sites. The need for wage labour has resulted due to the growing requirements of cash to meet consumption needs, in addition to being exposed to drought without a cushion; a dramatic change from the earlier situation.

The women are now expending less energy and time on certain types of housework such as collection of water, which is available close by and the flour mill has reduced the drudgery of grinding grain. They are unfortunately no longer using the skills of pottery, basket-making, etc. The Maharashtra PAP women who are availing of gobar gas facility (in Parveta) maintain that the time gained from firewood (non) collection is diverted to the collection of cow-dung for the gobar-gas plant. The availability of firewood is a major problem, for households which cannot install gobar gas plants. The consumption of firewood has decreased to one kg per day. This extends to the Gujarat PAPs as well.

Efforts have been made to provide alternative opportunities for income generation for women in the Gujarat resettlement colonies through introduction of training in non-traditional skills, e.g. soap making and weaving. Most women in the older age category have resisted this. Some of the younger ones have come forward but the effort has not yielded additional income or improved their status as the programmes have not been efficiently adapted. There have been no links between subsidised purchase of raw materials and efficient output marketing.

The status of women in the host villages is not high. This will undoubtedly influence the position of women who are relocating, over a period of time, as co-option occurs. The type of economy reducing them to wage labour and non-parity of values in the two situations, will affect their status adversely.

(10) *Host Population*: In Maharashtra (Somaval settlement), a forest is being cleared for R and R purposes. This forest contains unrecorded settlements wherein the original residents depend upon the forest for their subsistence. The PAPs are required to adjust to both, the host villages and the unrecorded settlements, as members of the latter now have to share their minimal sources with an additional set of people. Clearing the forest has already reduced their access. Hence, incidents of tension have been noted in these areas. In Somaval, the crop of one of the PAPs was stolen in 1992. Some PAPs have also been physically threatened by the earlier inhabitants. In one incident (in 1992), the tension culminated in a firing incident, in which the life of a tribal woman was lost.

The PAPs are receiving benefits in the form of agricultural implements, fertilisers and other infrastructural support, as specified in the compensation package. Even though these are under-used, it has created feelings of jealousy and hostility among the original inhabitants. Non-advancement of these benefits to host populations, has generated tension.

In most resettlement colonies inhabited by the Gujarat PAPs, integration with the host villages is yet to be attained. Except the site of Khadaga, problems have been identified in the other sites. These relate to a variety of factors. A large number in the host population, employed as labourers on the sites purchased by the R and R department, suddenly lost all employment. The PAPs, unlike the absentee landowners (their previous employers), do not require their services as they cultivate their fields with the help of family labour. In addition, the arrival of so many persons has created a situation of surplus labour, reducing job opportunities for them. Further, people associated with the land in a share-cropping capacity have been reduced to landless labourers. In 1991, this problem was the most acute in Chhindrapura, Ambavadi and Parveta. Moreover, fodder and fuel shortages were exacerbated by the arrival of the new entrants.

The host population was also not involved in the process of R and R. They got to know of impending changes only through hearsay. The interaction in most sites is minimal. There is virtually no exchange or interaction on a daily basis. Some amount of interaction on ceremonial occasions (births, deaths, marriages and festivals), though, has been noted.

(11) *Preparation of site before resettlement and availability of infrastructure*: It was envisaged, under the terms of the award, that when villages or sections of villages relocate, infrastructure of school, primary health centre and transport would be provided. In the case of the Maharashtra PAPs

who moved to Parveta, due to batch-wise shifting at the initial stage, infrastructural facilities were inadequate. The tin sheds were leaking, only one hand pump was functional, there was no electricity, roads, health facility, toilets or grazing ground. The first batch of persons experienced serious health problems due to nutritional deficiency and lack of proper health care. In 1988, 17 deaths, (a number of them children below five years), were recorded out of a total of 350 persons in this settlement. With improvement in the sites, the number of such deaths recorded has decreased. Initially, the most serious problem was water, which was solved after the people were organised by the Narmada Bachao Andolan. Ironically, the award requires that two hectares of irrigated land should be given. Till irrigation facilities commence, hand pumps and wells are required.

Approach roads have now been constructed to some colonies, but the bus transport is inadequate, creating a problem of accessibility. Somaval (in Maharashtra) has one dirty road on which only one bus plies per day. Among the colonies inhabited by the Gujarat PAPs, only 12 have pukka approach roads.

As per geological reports, Somaval is located on the hill slope at the foothills of the Satpuras, wherein, due to the topography of the land, surface run-off could prevent adequate recharge of ground water at the site. It is in the future that water shortages are anticipated unless watershed development is commenced early. At present, all the colonies are provided with adequate drinking water, but in some, water is released only at particular hours, unlike the perennial Narmada. Moreover, in the future, a cost will be attached, as electricity bills will have to be paid for lifting and pumping water. Further, pumps are prone to break down. In Gujarat, PAPs are encountering a water problem in some sites. In Ambavadi, Parveta, Dhefa, Khadaga and Thapavi one of the two sources of drinking water has become dysfunctional. In Bhilvasi and Chhindipura, due to only one source being available and that too non-functional, the PAPs have to carry water from the adjoining villages located three to four km away.

Regarding educational and medical facilities, there appears to be improved accessibility in both Maharashtra and Gujarat. In Somaval and Parveta, schools exist. The PAPs are availing of these facilities and sending their children to school if not required for domestic work and minding cattle. In the newer resettlement colonies in Gujarat, however, the total number of PAPs from Maharashtra is too small to qualify for the infrastructural facilities, according to the laid down norms. Therefore, the children of the Maharashtra PAPs are expected to avail of the schools of the host villages,

where they have to traverse a distance of at least four km everyday. This affects small children.

The Gujarat PAPs have access to a health sub-centre in only three colonies. In 13 new sites, services are available at a distance of one to five km. In the remaining four, the closest sub-centre is 15 km away. The PHCs and the sub-centres of nearby villages are poorly equipped and the people no longer have access to medicinal herbs earlier procured from the Satpura forests.

CONCLUSION

(1) Given the baseline situation, the resources available, and the approach adopted, the implementation of the award is far from satisfactory, across both the states reviewed in this paper. It is also doubtful whether the governments can take on the full dimensions of the task, given the problems highlighted at the micro-level with the rehabilitation of just a few families. The tense situation in the Narmada valley region is the outcome of the serious problems relating to rehabilitation of this tribal community. A project symbolising development has caused the deprivation of a group of people who lived beyond 'development' strategies for centuries. Bringing people into the mainstream should not adversely affect their life situation. The claim is now being put forward that they have access to government services in the resettlement sites. This is unjustified since they were supposed to be entitled to these services even in their original villages as these areas have been demarcated for coverage under the tribal sub-plan. They had a basic right to services such as health or education. Moreover, they are now being moved to sites which will not be similarly covered under the tribal sub-plan provision. Earlier neglect cannot be sought to be made up by this claim. It is accepted that some of the services are now more accessible such as the PHC, school, roads, and transport, yet observed that their overall position has actually deteriorated in both economic and social dimensions as documented by this report.

(2) Problems have emerged due to a variety of reasons. At the macro-level there was clearly the need to: (a) gauge the exact dimension of the total impact of the project (on the people, flora and fauna) at the stage of project formulation; (b) determine the exact number of PAPs at the very outset; and (c) determine the nature and the extent of resources and finance required for resettling the displaced. None of these were fully undertaken before commencing the construction of the dam. At the very outset, it needs mention that there is need for a systematic review wherein an effective cost-benefit exercise needs to be undertaken with a major emphasis on accounting for the social costs and not only the cuses of

water likely to reach a certain number of beneficiaries.

(3) With specific regard to R and R, there are problems with the policy package as well, which have been documented in this summary. The basic problem pertains to non-parity of the package across the three states. Though people in all the three states are exposed to the same situation, there are vast differences in the R and R provisions which have not been modified by the governments of Maharashtra and Madhya Pradesh to bring them on par with the government of Gujarat. The R and R provisions of these states do not provide adequate support for people to regain their previous standard of living. It is anticipated that the displaced from Madhya Pradesh (especially) will have no alternative except to move to Gujarat.

(4) If the people from these two states do opt to resettle in Gujarat, non-availability of land in sufficient quantities is going to pose difficulties due to the magnitude of displacement in Madhya Pradesh. The experience of all the three states clearly reveals that land for cultivation and resettlement cannot be acquired easily. Claims being put forward regarding the availability of land lack authenticity, as much of this land has been proved to be non-arable.

The governments have not acquired land for resettlement using legislative measures such as the Land Acquisition Act, Land Reform Act and Land Ceiling Act. The 1984 amendment to the Land Acquisition Act, 1894, provides for land acquisition to resettle people. Instead, in Gujarat, land is now bought in the open market in small bits and pieces. Thus, it may be difficult to obtain land of adequate size to resettle even 30 to 40 families in one location. This prevents effective relocation of groups which represented cohesive social units. The resettlement experience of Gujarat villages is already available as evidence: families from 19 villages are resettled in over 175 locations. The government of Maharashtra has chosen to resettle people in the clear felled forest area. Private purchase of land cannot permit large scale resettlement due to limited availability. Forest land cannot be a source of agricultural land for the resettled, given the magnitude of displacement caused and depleted forest reserves. The options of the governments of Maharashtra and Gujarat, thus, have limitations as also repercussions and, in conditions of large scale R and R, they cannot be justified or sustained.

(5) In order to effectively operationalise the R and R policies of Gujarat, the government must account for the unwillingness of people from different cultural and linguistic backgrounds (from Maharashtra and Madhya Pradesh) to settle in Gujarat. For most of the displaced people, caste, religion, language and kinship continue to

play a dominant role in determining their economic and social security. Education and the formal sector employment do provide people with the capacity to break away from the ties related to social attributes, to a certain extent, but only a small minority come under this category. Hence, the non-availability of suitable and adequate land in their own state, and the unwillingness of people to move to unknown areas, easily gives rise to the use of external pressures or force, besides leaving no options for the concerned person to choose between alternatives. The choice is, then, between being wiped out or accepting whatever is offered without protest.

(6) The adoption of the policy of 'divide and shift' in the villages has devastating effects on the welfare and community life of the originally cohesive groups. In the process, the original villages are divided into non-viable social units and relocated. Further, the government is attempting to resettle people by marginalising the advocacy groups spearheading the anti-dam movement. In the absence of advocacy groups, it is possible that the people will not be able to put the necessary pressure for resettling them with the full provisions of the award and its subsequent modifications in the light of experience in implementation.

(7) The Sardar Sarovar Project has highlighted one point very clearly: large scale

displacement of people from land cannot be sustained. It may be easy to design an appropriate R and R policy framework, similar to the policies the state and central governments have evolved for the social and economic development of tribals, harijans and other weaker sections. The M and E experience for a period of six years has revealed the magnitude of procedural problems associated with R and R.

(8) The time has come to look for alternatives to large dams, in order to minimise submergence of land and displacement of people. High population density on land implies large displacement. When the area of submergence is large, the problem of displacement assumes serious dimensions. Moreover, when the people displaced are dependent on land for livelihood, and if they happen to be tribals, then the alternative provision has to be land. At least for the first generation of resettlers, provision of land can be the only method of compensation. All other methods have their short comings. As discussed earlier, land is not available or the state is unable to acquire land for the displaced.

(9) Divisive policies will trigger serious social and political consequences in society. As displacement progresses and dissatisfaction increases, the affected people will regroup to challenge the state. This process is gaining momentum. The Narmada

Bachao Andolan has sown the seeds of assertiveness and it has taken firm root in the minds of the affected people. The activists view their work basically as facilitation to enable the people to awaken them to their dormant capacities to decide and act for themselves.

(10) Given these observations from M and E work, it is incumbent on the state governments, and the centre, to review not only R and R but the entire issue of creating development with deprivation as these data show. This is particularly crucial at this stage as, ultimately, there are a very large number of PAPs from Madhya Pradesh who are yet to be resettled. Hence, decisions taken now will be crucial for thousands who will be displaced by this project.

Note

[This report could not have been written without the active co-operation of the people living in the Narmada region. This article is dedicated to their cause. Ajith Kumar, A Ahire, J Gawale, D Mali and R Mohite stayed in the villages over extended periods to collect data under difficult conditions. The faculty involved from the Tata Institute of Social Sciences, at different stages, included, C Sengupta, V Mathrani, Shiva Raju, and U B Reddy. The team leaders were, S Parasuraman and Nandini Rao. Overall guidance and encouragement were provided by A S Desai and Sarithi Acharya.]

* The Gujarat data, in this report, pertains only to the 22 resettlement colonies surveyed by the Centre for Social Studies.

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'Sangh Parivar' and Democratic Rights

Sumanta Banerjee

What is the priority expected from the Indian state which is constitutionally committed to democracy and secularism? To protect its citizens from the onslaught of forces which make no bones about their anti-democratic and anti-constitutional objective of persecuting a particular religious minority and establishing a theocratic state? Or to allow these forces to consolidate their base and power under the benign umbrella of democratic tolerance?

THE resilience of the politics of Hindu communalism in an almost half-a-century old 'secular' republic attracts a number of explanations. There is one that claims that it is the legitimate heir to the tradition of an insurmountable divide between the 'superior and indigenous' Hindus and the 'inferior and alien' Muslims (the favourite theory of the ideologues of the 'Sangh Parivar'). There are also attempts by others to explain it as a legacy from the tradition of Indian nationalism (fashioned during the colonial era) which was heavily dependent on, and often identified with, symbols and beliefs of a Hindu past—both mythological and historical. Yet again, there are speculations that it could be a recurrent manifestation of some sort of a lasting psychological backlash (particularly among those Hindus who were displaced by the 1947 partition) from the communal holocaust that accompanied the birth of the Indian state.

While acknowledging that all these factors, in some form or other, could have played a role in the sustenance of the politics of Hindu communalism, one must also examine the space and opportunities that have been provided in the post-independence era to the votaries of Hindu communalism by the Indian polity. The executive, the judiciary and the political parties have at one time or another, either willingly or unwittingly, paved the way for the rehabilitation of the RSS and its various affiliates in the political mainstream, after every crisis that they suffered. One can discern a running thread from a series of developments—(i) the lifting of the ban on the RSS in July 1949 (that was imposed after Gandhi's assassination) brought about by secret negotiations between the RSS boss Guru Golwalkar and the then union home minister Sardar Patel; (ii) the exercises undertaken by the opposition to collaborate with the RSS and its affiliates in the United Front state governments in the late 1960s, in the central Janata government following the 1977 general elections, and in electoral adjustments with the same affiliates in the 1989 parliamentary elections (which allowed them to capture a sizeable space in the Lok Sabha and decide the fate of the National Front government); (iii) the legitimisation by the Congress—under Indira Gandhi and her son later—of the demands of 'Hindutva' (culminating in Rajiv Gandhi's electoral promise of bringing about a 'Ram Rajya' and initiating the

'shilanyas' programme from Ayodhya). The running thread is one of accommodating, compromising with, and giving legitimacy to, not only the political organisations of aggressive Hindu communalism, but also their ideology—in spite of unassailable evidence of instigation of and participation in successive communal riots by their members and followers. Sharad Pawar's pow-wow with Bal Thackeray in the quiet retreat of a naturopathy clinic within months of the Shiv Sena chief's open acknowledgement of his party's involvement in the Bombay riots is the latest and the crassest example of the continuity of the tradition of lending legitimacy to Hindu communal forces.

That the 'Sangh Parivar' continues to enjoy a democratic space in the Indian polity even after its aggressive violation of all the provisions of the Constitution is evident from the succession of judicial verdicts in its favour in different parts of the country during the last few months following the events of December 6—in Uttar Pradesh, the court order to provide a firm roof over the illegally installed idols at the site of the demolished Babri masjid; in West Bengal, the court's overruling of the state government's ban on the BJP rally in Calcutta some time ago; in Orissa, the court's orders on the Cuttack administration to open the lock put on the office premises of the VHP there; and to cap it all, the striking down of the ban on the RSS and the Bajrang Dal by a one-man tribunal headed by a Delhi High Court judge recently. (Significantly, the revocation of the ban order on the Hindu communal organisations was almost simultaneous with the endorsement of a similar ban order on the Islamic fundamentalist ISS by another judge!)

The willingness to allow the 'Sangh Parivar' a democratic space is also evident from the flow of statements, letters and articles in newspapers and journals by well-meaning defenders of human rights, who have expressed their shock at the violation of the 'democratic rights' of the leaders and members of the 'Parivar', whenever the Indian state chose (rarely) to depart from its role of prostration before the 'Parivar', and dared to arrest its leaders or take mildly repressive measures against them (as during their rally in Delhi on February 25).

LIMITS OF DEMOCRATIC TOLERANCE

This brings us to a contentious issue—the

limits of democratic tolerance. The problem can be posed in the form of a stark question: What is the priority expected from the Indian state which is constitutionally committed to democracy and secularism? To protect the rights of its citizens from the onslaught of forces—both at the physical and ideological levels—which make no bones about their anti-democratic and anti-constitutional objective of persecuting a particular religious minority and establishing a theocratic state? Or to allow these forces to consolidate their base and power under the benign umbrella of democratic tolerance which can be extended to them on the plea that constitutionally every citizen enjoys the right to freedom of expression, freedom of assembly and freedom of religion.

On the Ram Janmabhoomi discord, the Indian state—whether under the National Front or the Congress—had chosen the second as its priority at the expense of the first. The occasional gestures against the 'Sangh Parivar' (e.g. the police action against BJP demonstrators in Delhi on February 25 or in Bombay on July 12 and the CBI raids on the offices of their affiliates) do not reflect in any sense a departure from the state's consistent strategy of compromise with the communal forces. These sporadic actions should be understood for what they are—convulsive jerks of an epileptic type by a morally and politically bankrupt ruling clique, clinging to power that it uses to serve its immediate interests (e.g. Narasimha Rao's efforts to re-establish his authority, neutralise his rivals within his party and disarm the Left opposition).

The moot point that emerges from this is that a democratic system can lend itself—depending on the political leaders who run it—to manipulation by fascist forces which make use of the democratic rights granted under the system to subvert democracy in the long run. It happened in Europe in the 1930-40 period. The wounds are still open. In India, the Hindu communal organisations—the RSS in particular—have eminently made use of the democratic space by building up their base in a steadfast way over all these years. The well-knit network of the 'shakhas' among the urban middle class, the wide expanse of the primary schools run by their educational outfits, their gradual penetration of the traditional Left-dominated working class areas of Bombay, their ability to gain a foothold in the countryside of West Bengal (as evident in the results of the recent panchayat elections there) have been made possible by the democratic space available to them.

At the same time, one must remember that this same space was not only available to but was dominated by the Centrist and Left forces in the 1950-70 period. In the contention with the Hindu communal forces in this arena, their gradual retreat—and even abdication of responsibilities—call for a self-critical analysis that should involve an honest reappraisal of their conventional understanding of a whole range of problems: the complex relationship between religious and

cultural customs; the need to reformulate the concept of 'secularism' in the Indian context; the search for alternative symbols of an Indian secular ideology that could be traced to our popular cultural traditions. Paraphrasing Lenin's famous statement in our present context, one may say that communalism is the punishment for the opportunist sins of the Indian polity and secular forces.

While this self-critical exercise has become a crucial necessity at the ideological level, the Left, liberal and human rights groups, who may be trying to engage themselves in the exercise are caught up in a tangle at the operative level. The Left parties—each suffering from internal ideological problems and torn between political pulls and pressures—have betrayed an unwillingness to engage unhesitatingly in confronting the politico-religious configuration of 'Hindutva' and throw the power of their organised working class base behind such a confrontation. In Germany and Italy in the 1930s, the communists fought the fascists in the streets—although they lost the battle. But here, the entire Left, ranging from the parliamentary communists to the various revolutionary (P/ML) groups, dare not take on the saffron-shirts of the 'Sangh Parivar'. To justify the inertia, they harp on the old principle which by now has been reduced to an almost anachronistic mantra: 'communalism should be fought ideologically and politically, instead of by administrative measures'. Fine words! But, let us pose two questions in this context: (i) is there any peaceful avenue left in the streets, for a political discourse to fight communalism, and to convert or convince people who are either terrorised, or partisans, in a situation of a colossal somnolent vertigo induced by the drug of 'Hindutva'? Efforts at such a discourse made by voluntary organisations like the People's Movement for Secularism and street theatre groups in the streets of Delhi in December-January faced violent opposition from a handful of assertive and vocal proponents of 'Hindutva' (supported by the police) among crowds of listeners who chose to remain silent, (ii) how are the Left parties (who have a more organised mass base than the various voluntary groups and civil liberties organisations) fighting communalism 'ideologically and politically'? Apart from issuing a few pamphlets, organising seminars in metropolitan cities and coming up with statements, they do not appear to be much in view. Their 'ideological and political' campaign to fight communalism—if at all undertaken—did not have any impact on their working class bases in Metiabruz in Calcutta and the industrial areas of Bombay which saw some of the worst riots.

As for the liberal intellectuals and the human rights groups, their attitude towards the state on the issue of tackling the communal menace is marked by a certain ambivalence. While agreeing that the state must prevent communal riots, they at the same time wince when the state resorts to measures that impinge on what they consider the

'democratic rights' of the BJP and other members of the 'Sangh Parivar'. Administrative measures like the ban on the RSS, VHP and Bajrang Dal, dismissal of the BJP state governments, ban on the February 25 rally in Delhi preceded by arrests of BJP leaders and cadres and followed by police violence against their supporters in Delhi have drawn protests from certain sections of the human rights groups and academics. Although all of them may not see eye-to-eye with each other on a every issue, their general arguments can be summed up under the following: (i) a ban on any political and social organisation goes against the ethos of our Constitution and the communal challenge should be met by political opposition instead of undemocratic acts; (ii) since the BJP is a recognised opposition party, its plans to hold rallies are legitimate political activities and hence its leaders should not be arrested; (iii) secular Left parties should protest against state persecution of BJP activists since the police, when allowed to act illegally against one political party in the present situation, is likely to behave in the same fashion against others in a different situation; and finally (iv) the administrative measures against the 'Sangh Parivar' (like bans and arrests) would help its politicians to turn themselves into popular heroes and evoke mass sympathy.

All these arguments are based on one single assumption—that the BJP is a political party which abides by constitutional obligations, is amenable to persuasions, and is bound by terms of negotiations in a democratic discourse.

IS 'PARIVAR' ENTITLED TO DEMOCRATIC RIGHTS?

It is too monotonous an exercise to go on quoting the statements of the BJP leaders and their comrades in the 'Sangh Parivar' and recapitulating their acts (information about which is surely accessible to the literate and educated intellectuals who form the core of the academic elite and the human rights groups) in order to convince the politically sensitive observer that the politicians of the 'Parivar' have forfeited their right to claim democratic tolerance.

One wonders how the communal propaganda carried on by the RSS members (under the umbrella of the BJP) can be described as 'legitimate political activities'. It is all very well for some people from a safe distance to defend the BJP's 'democratic right' to assemble their followers in a public rally or demonstration. But how have the BJP leaders and their followers behaved in the past whenever they were allowed to engage in such activities? Advani's 'ratha yatra' left behind a trail of bloody communal riots all over the country in 1990. The congregation at Ayodhya in December 1992 led to the demolition of the Babri masjid and another series of riots. Given this record of the BJP and the 'Sangh Parivar' politicians (many among whom are BJP leaders), how can one trust them and allow their re-entry into the democratic polity? Are the

liberals and human rights groups prepared to take the risk of endangering the lives of thousands of citizens just to uphold the 'democratic rights' of a single political party?

In trying to find a rational explanation for allowing the extension of democratic rights to the 'Sangh Parivar', some among our intellectuals appear to be deluded by the occasional false hints thrown by the BJP that it is moving towards moderation, that the 'doves' are trying to restrain the 'hawks'. Such impressions were built up on the eve of the elections in 1977 and 1989, and again today after the BJP's recent conference in Bangalore. Such periodic gestures allow the politicians of the 'Sangh Parivar' to regain acceptability in the political mainstream. Every phase of so-called moderation by these forces is followed by an aggressive phase that is more violent than the previous one, and which these forces build up by taking advantage of the democratic space and legitimacy acquired by them during their charade of moderation.

As a historical parenthesis, let us recall that on December 1, 1938 the then French ambassador to Berlin was gullible enough to believe that Hitler was a wobbler, and he sent home a despatch saying that Hitler was torn between 'hardliners' like Goebbels and Himmler on the one hand and 'moderates' like Goering on the other! Within three months, Hitler occupied Czechoslovakia and the world war started in September that year. It had always suited the fascists to put up a divided face to dupe those whose whole background inclined them to delude themselves regarding the fascist threat.

On a mini-scale, the 'Sangh Parivar' has behaved in a similar way in India. The events of December 6, 1992 were an culmination of the gradual build-up of communal frenzy by aggressive forces of 'Hindutva' who were allowed to operate in the arena of democratic discourse, and thus had the opportunity to openly mobilise their 'kar sevaks' and train them for the assault on the mosque. They demonstrated their other face, the 'human face', by assuring the Supreme Court that no demolition would take place, and deluding the liberal and secular minded people with the false impression that 'moderates' like Advani would restrain the 'hardliners' like the Bajrang Dal leaders.

By duping the Indian polity by this duplicity and gaining the objective of installing the stone images of a baby Ram on the site of the demolition (an inevitable precursor to the building of the temple there), the 'Sangh Parivar' has successfully carried out a rule that was believed to have been formulated by Hitler: if you want to present the democracies with a *fait accompli*, do it over a weekend when they are holidaying! The 'Sangh Parivar' chose a Sunday to demolish the Babri masjid. But Indian democracy chose to go on a long holiday even before that fateful Sunday, although the signals were clear from the outset.

Those willing to extend democratic rights to the 'Sangh Parivar' refuse to understand

that in any discourse or encounter with its members, the norms of democratic negotiations do not operate, the standards of constitutional agreements have no validity. They tend to treat BJP actions in terms of their own standards of civilised behaviour, while in actuality the 'Sangh Parivar' is guided by an altogether different set of religio-political norms which do not conform to the aspirations for a pluralist, secular and democratic society.

NAXALITES, TERRORISTS, AND UNINVOLVED CITIZENS

One might argue at this stage that since human rights groups protest against the suppression of democratic rights of the followers of the various Naxalite groups (who also abide by a different set of political norms and have opted out from constitutional politics), these human rights groups should also uphold the 'democratic rights' of the 'Sangh Parivar'.

It is about time that human rights groups come out with a firm stand that makes a clear distinction between the Naxalites and their followers/sympathisers on the one hand and the 'Sangh Parivar' and the 'kar-sevaks' on the other. Since the various civil liberties and democratic rights organisations in India agree on protecting the sovereign, socialist, secular, democratic character of the Indian Republic, they are surely expected to make out the difference between class-based struggles aimed at fulfilling the socialist objectives of the constitution, and religion-based agitations that subvert its secular and democratic goals. Class conflicts in their violent manifestations (as in the Naxalite movement) arise in the course of struggles by the downtrodden to change our society in a socialist direction (which also happens to be the constitutional goal!) and resistance to such a change by the vested interests. The violent demonstrations of religion-based movements (like Ram Janmabhoomi) arise in the course of efforts by religious fundamentalists (like the 'Sangh Parivar') to change our society in a theocratic direction (which violates the constitutional goal) and to divide our people into mutually hostile religious communities.

Besides, unlike the 'Sangh Parivar', the Naxalite armed groups (in spite of their avowed rejection of constitutional politics) have usually demonstrated their willingness to abide by agreements whenever negotiated on democratic terms. While one may disagree with the People's War Group (PWG) tactics of kidnapping people and using them as hostages for bringing about the release of its members, one must acknowledge at the same time that the PWG had stuck to its promise (of releasing the hostages) in deals with the administration in Andhra Pradesh. This stands out in sharp contrast with the long record of the 'Sangh Parivar' of reneging on every promise that it made during negotiations on the Ayodhya dispute.

The other contentious area in the human rights debate is the role of the civil liberties

and democratic rights groups in Kashmir and Punjab. The exposure of the violation of human rights of innocent citizens there by the security forces has drawn a lot of flak from the government. The BJP and its allies in the 'Parivar' have also joined the government in the attack. The concern of the human rights groups about the plight of the non-involved citizens at the hands of the security forces has been caricatured by the BJP Congress combine as a justification of terrorist actions in Kashmir and Punjab. Yet almost all the reports by the human rights groups on these two states have condemned the actions of the terrorist groups and the religious-communal fanatics, while denouncing at the same time the unconstitutional and illegal actions (like killing of people in 'false encounters', indiscriminate and arbitrary arrests, torture and murder of arrested people in custody) of the security forces. While upholding the democratic right of the non-involved citizens to protection from such actions, the human rights groups have always insisted on the curbing of terrorists and trial of alleged terrorists under the normal penal code.

When speaking about democratic rights in this context, one must make a distinction between the innocent citizens who are uninvolved in the civil warfare (between the state and secessionist terrorists) in places like Kashmir and Punjab on the one hand and the participants in the Ram Janmabhoomi 'kar-sevaks' and their leaders who were committed to the demolition of the Babri masjid and are still actively involved in their violent warfare for a 'Hindu rashtra' on the other. One cannot surely equate the two and demand the same treatment for both. The human rights groups must be firm in demanding that the latter should be ruthlessly suppressed by coercive measures, for the simple reason that their actions not only violate the fundamental rights of the citizens, but pose a threat to the basic principles of democracy and secularism by which the Indian Constitution swears. Why should they not be equated with the terrorists of Punjab and Kashmir, and treated in the same way?

LONG-TERM STRATEGY OF 'PARIVAR'

The need for such coercive measures becomes important in view of the professed goal of the 'Sangh Parivar'. It is not simply the political goal of the BJP and its allies to come to power in Delhi—and continue to behave like any other constitutional political party. They are determined to implant in our civil society certain anti-humanitarian values that 'Hindutva' shares with parallel fundamentalist ideologies, like those of the neo-Nazis in western Europe, the Zionists in Israel and the Islamic clerics in Pakistan and elsewhere.

It is this global ideology of anti-democratic, racist and communally divisive values which the 'Sangh Parivar' shares with its counterparts in the rest of the world that should alert the human rights groups in our country. It is not surprising that at a recent

seminar in Karachi (reported in *The Times of India*, July 15, 1993), rightwing Islamic party spokesmen endorsed the BJP's right to transform India into a Hindu fundamentalist state. This springs from the fundamentalist belief that the traditional exploitative norms of orthodox religious systems can be protected only in those states ruled by their respective religious patriarchs. The Islamic clerics do not believe in a secular state (which, according to them, is 'dar-ul-harb') and want all Muslims to live in 'dar-ul-Islam', just as the 'Sangh Parivar' believes that all those born as 'Hindus must live in a 'Hindu rashtra' and that Indian Muslims should depart for Pakistan.

It is not surprising also to find the members of the 'Sangh Parivar' sharing with the neo-Nazis the xenophobic hatred of 'foreigners'—the Bangladeshi refugees in the Indian context. The same xenophobia leads them to sympathise with the Zionist attempt to drive out the Palestinians.

All these fascist outfits share in common certain values and tendencies which cut across their regional or religious differences: (i) a determination to impose a centralised political system based on the monopoly of power by a majority community; (ii) a plan to marginalise the minorities—either by terrorising them into submission or by ousting them by force from their territory; (iii) an imposition of certain orthodox, anti-humanitarian rules, often sanctioned by outmoded religious doctrines, on the members of their own respective communities which militate against the rights of the economically deprived, women and other weaker sections, and those who dissent from the ruling ideology.

It is unwise therefore to assume—as some people do—that once the BJP comes to power, it will modify its communal policies and settle down to be a good-natured constitutional party. It cannot be expected to deviate from its long-term strategy of establishing an authoritarian and patriarchal 'Hindu rashtra'—the goal for which it had been striving all these years. We should not underestimate its ideological motivation and the dedication of its followers towards achieving that goal.

It is for this goal that the BJP and its allies have been using the democratic space that has been made available to them by the Indian polity. They have aimed at controlling or at least influencing the coercive organisations of the Indian state like the police and the army, and institutions like the bureaucracy and judiciary. The emergence of ex-armymen, ex-police officers, ex-bureaucrats as leaders in the 'Sangh Parivar' is not a sudden phenomenon, but suggests a long and patient process of indoctrination and infiltration.

In this process, the 'Sangh Parivar' has already succeeded in contaminating the functioning of certain major institutions, and thereby threatening the rights of citizens. Democratic and civil rights granted in a Constitution become meaningful only if there is an ultimate organ—an independent judiciary—which decides whether or not

rights are being violated, either by the state, or anti-democratic forces. It is becoming clear every day that we cannot hope to have our rights preserved by the judiciary, as we increasingly come across judgments which express the sentiments of the 'Sangh Parivar', rather than the considered opinion of rationally thinking people.

Democratic tolerance has allowed the BJP leaders and their followers to have their cake and eat it too! They act against the Indian Constitution in following their beliefs and objectives. But they do not need to opt out from the political system and fight the state (as their counterparts among the religious fundamentalist forces in Punjab and Kashmir are compelled to do, who being members of minority communities, are more vulnerable than the Hindu fundamentalists, to the charge of being 'anti-national'). Taking advantage of its unchallenged (and state-recognised) claim to represent the majority community, the 'Sangh Parivar' is enjoying the passive sanction of a confused civil society and protection from a government which appeases Hindu terrorism.

This provides the BJP with an ideal opportunity to work its way into power. Totalitarian dictatorships have arisen almost without exception (in the recent past) within and against democracies. They initially assume the shape of a pseudo-democratic movement with a judicious mixture of populist slogans, manipulation of fear and arousal of hatred. The Ram Janmabhoomi movement is a rehearsal along these lines for the final capture of power by the anti-democratic forces.

CRUCIAL ISSUES

There are three crucial issues on which the Left, the liberal intellectuals and the human rights groups need to clarify their position and take a firm stand: (i) continued extension of democratic rights to avowedly communal forces working behind the facade of a legally recognised political party—the BJP—which by its record has proved to have abused these rights to subvert the democratic process and violate the basic principles of the Constitution; (ii) the role of civil society, and the duty of secular and democratic forces (including political parties) operating in that society in protecting the democratic rights of citizens from the offensive—both physical and socio-psychological—mounted by the communal forces; (iii) the responsibility of the Indian state to protect the democratic rights of the citizens, if necessary by resorting to coercive measures against those who publicly avow their hostility against a minority community in their speeches and acts, and thereby pose a threat to the entire existence of a pluralistic society.

These issues are interrelated. The democratic space which is enjoyed by the BJP and its allies is not only a gift of the Indian state, but is also sanctioned by large sections of civil society. One of the problems with which we must be concerned is the support for Hindu communalism from among a fairly

diversified multitude of Hindu social groups—urban middle classes ranging from the traditional BJP vote bank of the trading community to sections of vocal and educated professionals, from senior army officers to jawans, as well as underprivileged masses in certain areas which include not only the lumpen proletariat but also members of the organised working class (as witnessed in the recent riots in Bombay and Calcutta). The conquest of vital areas of democratic space (like the educational institutions, the media, the judiciary, etc., in certain part of the country) by these well organised proponents of 'Hindutva' cannot be explained simply by popular feelings of disillusionment, apathy, etc. As we mentioned earlier, the decline of political action and thought among the Left and secular forces has paved the way, to a large extent, for this communal usurpation of the democratic arena. But there are also structural changes in our society which make it difficult for the traditional liberal and Left forces to intervene and mobilise public opinion and the working classes in the old way. These changes have facilitated the growth of expectations of upward mobility in a competitive society that operates according to cut-throat norms. (The attack by Hindu lower-middle class self-employed people on their Sikh neighbours, who were perceived as more enterprising and therefore better off, in the 1984 anti-Sikh riots in the Delhi colonies, or the assaults on Muslim artisans in certain parts of north India who became victims of their neighbours because of their recent success in improving their lot, indicate the communalisation of competition in a system that is moving towards a *laissez-faire* economy). The complexities involved in the growing popularity of 'Hindutva' among these various Hindu social groups still await a theoretical conceptualisation.

In the meantime, the Left, the liberal intellectuals and the human rights groups who feel that it is their duty to fight against anti-democratic and communal forces face the dilemma of reconciling the concepts of freedom and coercion in practice.

But if 'freedom' granted to certain organised political forces serves their cause of persecution of minorities today and the gradual suppression of democratic rights of all tomorrow, the need for coercion for nipping that cause in the bud becomes important. As Herbert Marcuse pointed out: "If democratic tolerance had been withdrawn when the future [Nazi] leaders started their campaign, mankind would have had the chance of avoiding Auschwitz and a World War" ('Repressive Tolerance' in R.P. Wolff, B. Moore and H. Marcuse (eds), *A Critique of Pure Tolerance*). On a mini-scale in India, we could have avoided the demolition of the Babri masjid and its violent communal aftermath, if the Indian state had withdrawn democratic tolerance from the 'Sangh Parivar'.

Let us come down to brass tacks. The essence of the democratic political system does not lie in any action (like the demoli-

tion of the Babri masjid or the campaign against Muslims) that may enjoy the support and even participation, of a large number of people. It lies in the making of politically responsible decisions—both by the Indian state and civil society—that adhere to the constitutional obligation of protecting the fundamental rights of citizens, including those of the minority communities. Members of the majority community may—and they do—violate these rights. But a wrong cannot possibly become right because the majority wills it so. It becomes a greater wrong. A movement (like the Ram Janmabhoomi one), even when it enjoys the support of large sections of the majority Hindu community, should be judged by its politics, and not by its popularity. Its politics, by now, should be obvious to all who are concerned about the future of the democratic rights of Indian citizens (even if a large number among the latter may have joined the somnolent journey induced by the opium of 'Hindutva' towards the El Dorado of a 'Ram Rajya').

The unnecessary riots and killings that followed the calamity of December 6 are a part of the price that our citizens paid for the Indian state's diabolical game of appeasement of the 'Sangh Parivar' and its treachery—all in the name of democratic tolerance!

If the game continues—which is likely to—the larger part of the continuing price will have to be paid by our common people, unless they learn the lessons of the first instalment (of the Ahyodhya incident) and refuse to foot the bill that their political leaders are running up against them.

ROLE OF HUMAN RIGHTS GROUPS

In such a situation, those human rights groups which want to intervene effectively need to shed their purist concept of democratic rights as indivisible—a concept which allows toleration of speech and assembly of groups and movements which promote aggressive chauvinism and discrimination on the grounds of race and religion. The ideological battle against these groups and movements (which in the ultimate analysis should enable us to reconquer the space in the democratic arena in favour of the anti-communal forces) at the present stage of fire-fighting operations needs to be supplemented by the unequivocal demand for coercive measures against them—whether by the state, or by the organised secular and democratic forces, if necessary, in the streets.

Democratic rights have never been worshipped as absolute and indivisible in any society. Let us not reduce the struggle for democratic rights to a namby-pamby exercise of indiscriminate toleration of all views and actions (including those which in their effective manifestations threaten the very basis of the secular credentials of our Constitution). To quote an old socialist champion of democratic rights: "...democracy is not a creed for sissies and stooges... Democracy is red-blooded...with fire in its eyes. It is far from being respectable" (Koni Zilliacus, *I Choose Peace*, 1949).

Towards a Critical Marxism

Charles Bettelheim

This is the author's preface to the third volume (first part) of his Class Struggles in the USSR which is due to be shortly published in India. The text has been translated from French by Ramnath Narayanswamy.

THE appearance in English of the third volume of *Class Struggles in the USSR* comes 10 years after its publication in French, 10 years of economic, political and social upheavals of exceptional importance. These upheavals have directly touched those countries who claimed allegiance to socialism and have produced enduring effects on the international scene, one of which lies in viewing the current transformation as a testimony of the 'failure of socialism'.

ON THE ALLEGED 'FAILURE OF SOCIALISM'

The present work stands opposed to this thesis since it reveals that the USSR and the other countries who had declared that they had 'built socialism' had not actually accomplished any of the radical social transformations which could have permitted them to break away from this specific form of state capitalism which I have described as 'party capitalism'. In fact, it is the latter which has failed.

This failure was brought about in the USSR through the aggravation of a general crisis born from the contradictions of the capitalist mode of production and particular forms clothed by these contradictions under conditions of party capitalism. All the so-called socialist countries have entered into a similar process. These have developed according to specific modalities determined by their own history.

These countries had a number of similar characteristics: they were all, for example, subject to the leadership of a single party which upheld its legitimacy from Marx's works. Among other objectives, this book seeks to throw light on the usurped character of this 'legitimacy'.

Against this background, it seems to me useful to present some other remarks.

ON MARX'S WORK

The analyses presented here bear upon the scientific content of the work inaugurated by Marx. This work is very much alive, open to newer fields of enquiry and therefore capable of being enriched through rectifications and criticisms inspired by experience and social practices. Indeed, it is precisely this capacity which has allowed it to remain current and relevant.

These two qualities have been confirmed by the movement of contemporary history: by the unfolding of the crisis of international capitalism which entails a deepening of social and economic polarisation, increase in unemployment and underemployment, rise in criminality, corruption and the use of drugs, escalation of armed conflicts, etc, on the one hand, while on the other hand, these qualities are confirmed by the ability of Marx's works to take into account the contradictions of several allegedly socialist models and their consequences.

The scientific character of most of Marx's work concerns, above everything else, his analysis of the capitalist mode of production, its structures and contradictions and illuminating the laws governing its movement. Marx showed how the working of these laws led to a growing domination of the market order, the extension of the domination of capital and its globalisation, accumulation of riches at one end of the 'society' (now extending to the entire planet), and poverty at the other end. Social struggles led victoriously by the exploited are the only means by which the working of these laws can be breached and the social relations upon which they are founded be smashed.

That Marx's scientific work was able to anticipate the subsequent transformations of capitalism and its major consequences must not lead to the illusion that it is 'infallible' to an extent which allows it to foresee a future that is situated beyond the field in which its rigorous analyses are inscribed.

Marx had on many occasions guarded against those who believed they could predict the future. He had recalled that "men make their own history" and that the outcome of these struggles is not "guaranteed" so long as these have not been overcome. Also, even if his writings are far from being exempt of prophetic declarations (the range and scope of which are well worth exploring), he had himself, rightly, criticised those who sought—according to his expression—"to boil the pots of the future" and predesign the concrete forms of the transition to a 'classless society' (see, *Critique of the Gotha Programme*). He knew that history had more imagination than us and that its 'irony' could be bitter.

It is all the more necessary to bear these considerations in mind since ignoring them or occulting them has served to maintain the established 'order' and has allowed adherents of the latter to speak of the 'failure of Marxism'. In this context, it is necessary to present a few other reflections by way of supporting what has been outlined above.

ON THE ALLEGED 'FAILURE OF MARXISM'

The possible points of departure of the reflections that follow are several. I have chosen to begin by questioning Bukharin's affirmation according to which Marx's work constituted a 'block of steel'. It seems to me that this point of departure is justified since this affirmation had implicitly sustained 'Soviet Marxism' (to which it served as a 'title of legitimacy') and can foster several other forms of dogmatism. Now, a serious examination of Marx's work reveals that this is indeed questionable.

Comparing Marx's work to a 'block of steel' is to already betray it through a denial of its historical insertion, its continuous development and its essential characteristics. Accepting this comparison provides the possibility of arbitrarily choosing any 'quotation' taken from a complex work to unduly 'justify' so-called 'Marxist' analyses and conclusions but which are actually deprived of any sound basis.

Marx was highly conscious of the risk of distortion especially since this often occurred under his own eyes. He had denounced what he called 'self-styled Marxism', declaring to Laflague: "What is clear is that I myself am not a Marxist" (letter from Engels to Bernstein dated November 3, 1882).

Since these words were delivered, history has largely confirmed its bearer. It has shown that it is indispensable to recognise that Marx's work is rich, multiple and tirelessly creative; that—like all living reality—it includes contradictory aspects, and to arbitrarily abstract one of these at the expense of ignoring the context is tantamount to not respecting the integral nature of Marx's work.

It may also be recalled that concrete historical development and social struggles gave birth to not one but several Marxisms. Those who declared themselves the most 'orthodox' were the most dogmatic; the worst deviations from the struggle for social emancipation were committed in their name. These Marxisms provided the weapons to fight the exploited and oppressed by calling upon them to respect an order which was none other than the established order even though it had been 'smeared in red', as Lenin said of the Soviet state apparatus in 1921.

We cannot therefore speak of a failure of Marxism since the latter does not ex-

ist; what exists are several Marxisms which derive their origins from social struggles and from different aspects of Marx's work. Such a proposition might appear discouraging. In my view, however, it is not since it calls for the development of the only kind of Marxism that is defensible: critical Marxism.

FOR A CRITICAL MARXISM

'Critical Marxism' is the rational kernel of Marx's work and also of the works of those who remain 'fidel' to him. This does not however consist in simply repeating what he said but in retaining that which is in fact essential to forge ahead.

Remaining fidel to Marx's work in this sense has several important implications; above all, it involves not looking for answers in his work which either do not exist or which are not at any rate to be found there. Marx was—as anybody else—a 'child of his time' (to borrow an expression from Hegel).

This then implies an attempt to carry on the movement that enabled him to develop a radical critique of the existing order, the crimes of which he not only denounced, but also showed that they could only get worse, something which the ex-

perience of the past century tragically illustrates.

It also implies the task of continuing the criticism of ideological forms under which this 'order' comes to be viewed as 'eternal' and the 'best possible'.

Further, it implies being alert to the new (i.e., innovation and change) in order to extract lessons and rectify what the old might have wrongly suggested. The emergence of newer social transformations is a result of developments in scientific thought, in class struggles and popular initiatives to which Marx attached considerable importance when he declared: "The emancipation of the working class cannot but be the act of the workers themselves" (this already condemned any kind of diktat derived from a text or imposed by a party which wished to view itself as the 'guide of the revolution').

Finally, it implies an effort to keep 'alive' the capacity of Marx's thought to criticise itself and to treat criticism as something that is welcome (see, preface to the first edition of *Capital*, 1867).

A critical Marxism of this kind stands opposed to all proclaimed 'orthodoxies' which can only be conservative and consequently serve the existing order. Rejec-

ting an assimilation into a 'system', it firmly rejects the concept of monolithism by remaining open to the practice of free debate that is indispensable to the conquest of democracy.

The failure of pseudo-socialisms and dogmatic Marxisms that were linked to them heralds the beginning of a period during which the revolutionary character of critical Marxism can clearly develop and manifest itself. Among the scientific tasks that need to be urgently addressed include a balance sheet of pseudo-socialisms and their ideologies, an exercise in critical reflection having a bearing upon the different Marxisms in a manner that retains their positive lessons and rejects the rest, analysis of the forms of domination of capitalist apparatuses and the modalities of their transformation into private capitalists and the new forms assumed by the class struggle while the domination of capital considered globally is tending towards greater concentration to an extent that has no precedent hitherto.

The present work which attempts to show what 'socialism' and Soviet 'Marxism' had been can perhaps be considered as the beginning of a necessary renewal of critical and revolutionary Marxism.

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Labour-Exploitation Ratio as a Measure of Peasant Differentiation Its Fundamental Fallacy

Sumit Guha

If size of landholding is unsatisfactory as index of peasant class status in a situation of institutional and technical change, the same is true of the labour-exploitation criterion proposed as an alternative.

IN the course of the debate on agrarian relations and the mode of production in India, whose leading papers were recently re-published [Patnaik 1990] Utsa Patnaik had argued strongly that the most commonly used empirical index of class status size of landholding was an "unsatisfactory one except as a very rough approximation to class status. . . Even if varying types of land could be reduced to standardised units, the same standardised area can be cultivated on widely varying organisational bases: on a capitalist basis employing mainly hired labour with a high productivity level of technique, or on the basis of mainly family labour employing an extensive low productivity level of technique [Patnaik 1990:197]. She then went on to suggest that the use of outside labour relative to the use of family labour would be the most reliable single index for categorising the peasantry.

THE E CRITERION: DEFINITION AND ASSUMPTIONS

These ideas have subsequently been developed in a book and a paper [Patnaik 1987 and 1988]. All major forms of appropriation of surplus labour are sought to be included, and the result is the formulation of the labour exploitation index E as $E = \text{Net surplus labour appropriated through hiring, leasing and loan interest/surplus labour in self-employment}$ [Patnaik 1987:58]. Now, this formulation presupposes that labour days, output and value are convertible into each other. As Patnaik puts it "the unit of measurement can be, in principle, either labour days, or product, or value (income). The latter two are simply the product and value forms or expressions of the first, labour-days" (p 52). This assumption is vital for her formulation since the index depends upon the observed numbers of labour days, outputs and money-values being in identical units, on which, and *only on which basis* can the arithmetical operations of addition, subtraction and division be performed.

The index depends, therefore, crucially on the assumption that *the output per labour day is uniform across holdings*, even if techniques and capital employed differ; and even if the tenures differ. Utsa Patnaik is aware of this problem and comments

The assumption of a uniform rate of surplus labour is not particularly restrictive: it permits technical differences among holdings. It allows, for example, for the likely possibility that the hired

labour-based holding will use more productive techniques compared to the family labour-based one, provided that the better techniques are of the land-augmenting type, which raise land productivity, i.e., output and surplus per unit area, while leaving labour productivity relatively unaffected. (Of course, systematically higher labour productivity of hired labour-based holdings compared to family labour-based ones would mean that our assumption of a uniform rate of surplus labour for family labour and for hired labour would no longer hold.) Most technical change in India, however, is recognised to have been of the land-augmenting type (pp 53-54).

No evidence whatever is advanced in favour of this assumption, nor is any effort made to test it with reference to the farm data from Haryana which have otherwise been so exhaustively discussed by Patnaik. Yet by the mid-1980s there was considerable evidence challenging precisely this assumption of a constant labour productivity. Basant (1987) reviewed the existing literature and concluded that

The employment effects of alternative technologies and techniques in terms of

TABLE 1: OUTPUT, LABOUR INPUT AND OUTPUT PER DAY IN DIFFERENT HOLDING CLASSES

	Crop and Livestock Output Per Holding (Rs)	Labour Input Per Holding (Days)	Output Per Day (Rs)
Rich Peasant (RP)	5534	369.6	14.97
Middle Peasant (MP)	4234	187.3	22.61
Small Peasant (SP)	2745	116.9	23.48
Poor Peasant (PP)	1765	52.5	33.62
Petty Employer (PE)	1231	84.9	14.50

Source: Computed from Patnaik (1987), Tables 4.3 and 6.3 and pp 84-86.

TABLE 2: WAGES PAID AND DAYS HIRED IN DIFFERENT HOLDING CLASSES

Class	No of Holdings	Days Hired Per Holding	Total Days Hired (2x3)	Total Wages Paid (Rs)	Wage Per Hired Day
(1)	(2)	(3)	(4)	(5)	(6)
RP	15	259.6	3894.0	16,108	4.14
MP	74	37.4	2767.6	17,033	6.15
PE	6	57.9	347.4	1,009	2.90

Source: Calculated from Patnaik (1987), Tables 4.1a, 4.2a and 5.10.

TABLE 3: ASSUMED NUMBER OF FAMILY LABOUR DAYS IN DIFFERENT HOLDING CLASSES (Values per Holding)

	Farm Disposable Income	Less Family Labour Cost at Rs 5/Day	Family Labour Cost	Family Labour Days	Self-Employed Days (Ch 4)
(1)	(2)	(3)	(4)	(5)	(6)
RP	1859	943	916	183.2	110.0
MP	1756	382	1374	274.8	149.9
SP	1183	-12	1195	239.0	116.7
PP	393	-752	1145	229.0	52.5
PE	308	-201	510	102.0	27.0

Source: Patnaik (1987), Tables 6.7, 6.8 and 4.3.

unit of output are the most unequivocal: any innovation whether biochemical or mechanical, reduces labour input per unit of output. The most drastic reduction is for mechanical innovation (p 136).

Clearly, therefore, labour productivity was changing and it could not be expected to change uniformly and simultaneously on all farms in a single area, so that product per labour day would vary considerably from farm to farm at any given time. If grouping by acreage levels is "a highly inadequate method of aggregating data in a situation of institutional and technical change" [Patnaik 1987:31], the same is true of the labour-exploitation criterion proposed as an alternative.

INTERNAL CONTRADICTIONS

Evidence of this inadequacy is even to be found within the numerous tables in which the Haryana farm data have been presented, and it is in fact possible to see if the product per day is in fact uniform across farms, and this is attempted in Table 1. Output per holding is given by Patnaik in Table 6.3, p 134 and needs no explanation, but labour days per holding is derived from her Table 4.3 which gives total labour days per holding, total labour days being defined as self-employed family labour *plus* net labour days hired in or out. Obviously this is not equal to labour input per holding. However, the text informs us that "very few holdings *both* hired in outside labour and hired out family labour. There were only three such cases, all falling in the small peasant category". These three hired in 24.25 days in the aggregate (p 86). The absence of holdings both hiring in and out makes computation simpler. On rich peasant holdings as well as middle peasant holdings, labour used is defined as self-employment *plus* hiring; for small peasants it is self-employment *plus* net hiring in *plus* 24.25 days distributed over the 131 holdings in this category; for the poor peasants self-employment only, and for petty employers, self-employment *plus* hiring in.

The results are striking enough, even though what we have here are the averages of groups, and not the ranges of individual holdings, but the table clearly establishes the impossibility of using the labour-exploitation ratio for this set of farms. Applying it would be the methodological equivalent of subtracting lemons from grapefruit and dividing the remainder by oranges, since they are all citrus fruits, just as labour days are labour days. If anything, the table suggests that hired labour is less productive than self-employed labour since the rich peasants and petty employers have the lowest average product per day.

The heterogeneity of the labour applied is brought out not only by the variation

in the output per day, but also by the variation in the wage rates calculated in Table 2. One source of variation may be that though the survey covered 118 holdings in the rabi and 124 in the kharif season, yet only one out of 15 rich peasant holdings is found in kharif. In 1972-73, before kharif HYV paddy became common in Haryana both hired labour and inputs like irrigation would be more intensively used in rabi for wheat than in kharif for fodder, millets, etc. So the same holding could be 'rich peasant' in rabi, and 'middle peasant'—perhaps poor—in kharif. Dekulakisation using Patnaik's criterion would cut a wider swathe in the spring than in the autumn.

The labour day is so heterogeneous as to vary not only between groups of holdings, but *even between different chapters of the same book*. Apart from the explicit statement of standard labour days worked given in Chapter 4, an implicit statement is given in Chapter 6, where the notional surplus or deficit per farm is estimated by

subtracting the imputed value of family labour from net output with a standard wage rate of Rs 5.00 in one estimate and Rs 4.37 in another. The assumed number of family labour days can then be calculated by dividing the imputed cost by the wage rate, as in Table 3, which also contrasts the result with those given in Chapter 4.

The reader will observe that the labour days have not only increased between the

TABLE 7: ESTIMATED IRRIGATION COSTS BY CLASS OF HOLDINGS

Class	Irrigation Cost (Rs)	Area Irrigated (Ac)	Cost Per Acre (Rs)
RP	291.8	4.92	59.31
MP	156.0	4.00	39.00
SP	61.6	2.52	24.44
PP	26.1	2.29	11.40
PE	43.2	0.27	160.00

Source: Patnaik (1987), Tables 5.1 and 5.4.

TABLE 4: FARM DISPOSABLE INCOME AND FAMILY EARNINGS UNDER DIFFERENT DEFINITIONS OF SELF-EMPLOYED LABOUR (Values per Holding)

Class	FDI (Rs)	Family Labour Days in		Family Labour Cost in		Surplus/Deficit in	
		Chap 4	Chap 6	Chap 4	Chap 6	Chap 4	Chap 6
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
RP	1859	110	183	550	915	1309	944
MP	1756	150	275	750	1375	1006	381
SP	1183	117	239	585	1195	598	- 12
PP	393	53	229	265	1145	128	- 752
PE	309	27	102	135	510	174	- 201

Source: As in Table 3.

TABLE 5

	Sown Area (ac)	Crop Output Per Farm		Land Revenue Per Acre	
		Farm	Acre	Farm	Acre
RP	7.42	3396	458	31.33	4.22
MP	6.14	3209	523	23.97	3.90
SP	4.53	1744	385	11.18	2.47
PP	3.87	1193	308	5.73	1.48
PE	1.83	587	321	11.17	6.10

Source: Patnaik, 1987, Tables 4.18, 6.3 and 6.6

TABLE 6: INPUT AND OUTPUT VALUES IN VARIOUS CLASSES OF HOLDINGS

Class	Value of Current Material Inputs and Wages (2)	Family Wages at Rs 5 Per Day (3)	Total Input (2) + (3) (4)	Value of Output (5)	Output/ Input Ratio (6)
(1)	(2)	(3)	(4)	(5)	(6)
RP	3596	550	4146	5533	1.33
MP	2329	750	3079	4234	1.38
SP	1391	584	1975	2745	1.39
PP	956	263	1219	1765	1.45
PE	899	135	1034	1231	1.19

Source: Patnaik (1987), computed from Tables 5.12, 6.3 and assuming that the self-employment data given in Table 4.3 are correct.

chapters, but have increased unevenly between different 'classes', being inflated by 67 per cent for rich peasants but 336 per cent for poor peasants (cols 5 and 6 of Table 3). This inflation is particularly convenient for Patnaik since the theme of this chapter is that low incomes, low productivity and the lack of an investible surplus characterise the family labour farms.

In the course of a seminar held at the School of Oriental and African Studies, London, in July 1992, Patnaik clarified that the discrepancy between Chapters 4 and 6 arose because the different definitions of labour were used in the two chapters without, however, informing the reader of this change. It seems that in the original schedules a large number of child days were shown as employed in animal husbandry, especially on the smaller holdings. Patnaik judged that these represented disguised unemployment: the children did not go to school and were simply sent out of the house with whatever livestock the household possessed. Consequently (and in my judgment, correctly) she excluded these labour days from the computations that produced the tables in Chapter 4. In Chapter 6, however, these same days were silently included, and helped to produce satisfactory deficits in farm disposable income for the small peasants, poor peasants and petty employers. Patnaik writes: "we find that only the labour-hiring rural well-to-do, namely, middle and rich peasants, register surpluses: all other classes either barely break even or show deficits..." (p 143). This result is achieved by including the child labour days that had been previously excluded, as is evident from Table 4, where 'Farm Disposable Income' is shown as gross output value less paid-out production costs, rents, land revenue, cess and marketing cost, and the final surplus/deficit calculated after imputing wages to family labour at the rate suggested by Patnaik, Rs 5.00 per day. A comparison of columns 7 and 8 shows the effects of Patnaik's stroke of statistical legerdemain: in the first column all the holdings show surpluses even after imputing the cost of family labour, in the next column the last three classes show deficits.

EVIDENCE ON 'EFFICIENCY'

We have already seen that the gross product per labour day is highest on the family labour farms (Table 1), and even as regards highest yield per acre sown, it is the 'Middle Peasant' farms that achieve it (Table 5). These farms, we should note, hire in only 20 per cent of the labour applied in Chapter 4, and 12 per cent of that applied in Chapter 6. Patnaik seeks to explain this away by saying that it is an obvious consequence of the gross underestimation of rich peasants' output data

relative to that of the middle peasants, resulting from the fact that 14 out of 15 such holdings were found in the rabi season, which she regards as a 'minor' crop season (p 132). This might have a bearing on the total annual output of the holding; but it cannot lower the yield per sown acre in the rabi season. We may bear in mind that wheat is a rabi crop. In any case, the land revenue assessments suggest strongly that land quality varied greatly between different groups of holdings, even after allowing for fallow area, so that output per acre is an undependable measure. As an alternative I have computed a rough output/input ratio using Patnaik's data (Table 6).

Patnaik notes that the level of current material inputs is highest among the 'rich peasants', but then the land revenue figures (Table 5) suggest that they had the best land. In terms of output per unit of input there seems to be little to choose between the various groups, with the poor peasants, if anything, making the best use of resources. The same point is suggested by the low irrigation expenditure of the family labourholdings (though the lower requirements in kharif may be the true explanation). These costs are estimated in Table 7 as follows: since there were only two tractors in the 242 holdings, we may take electricity and fuels as mainly consumed in irrigation, and add these to 'canal and other irrigation charges' to arrive at the paid-out cost of irrigation.

So the issue of the relative efficiency of family labour and capitalist farms is far from closed. Secondly, Patnaik's attempt to identify peasant strata on the basis of labour days founders on the heterogeneity of the days themselves. This enterprise itself originated perhaps in a misunderstanding of Marx. Marx argued that labour was performed in every society, and surplus labour in every class society—but only under certain very

restricted conditions did labour produce homogeneous values. He wrote:

Moreover, only so much of the time spent in the production of any article is counted, as, under the given social conditions, is necessary. The consequences of this are various. In the first place, it becomes necessary that the labour should be carried on under normal conditions. If a self-acting mule is the implement in general use for spinning, it would be absurd to supply the spinner with a distaff and spinning wheel... Then again, the labour-power itself must be of average efficacy... This power must be applied with the average amount of exertion and with the usual degree of intensity; and the capitalist is as careful to see that this is done, as that his workmen are not idle for a single moment [Marx 1974:190].

The distance between this, and Utsa Patnaik's aggregation on the basis that one adult man-day is equal 4/3 woman-days or 2 child-days on all farms in all seasons, and regardless of the land quality, is sufficiently large to be very obvious.

[I am grateful to V Bhaskar for his comments and to Utsa Patnaik for an oral clarification of certain definitions employed by her. Neither of them is responsible for any errors present in this paper.]

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Cauvery Dispute: Voice of Sanity

Ramaswamy R Iyer

The Cauvery River Dispute: Towards Conciliation by S Guhan; a Frontline Publication, Madras, 1993; pp viii + 78, Rs 50.

THE long-standing dispute between Tamil Nadu and Karnataka on the sharing of the waters of the Cauvery has been a difficult and seemingly intractable one. Driven by the forces of party politics, the two state governments have generated or fostered strong chauvinistic sentiments among the general public, which tend to limit their (the governments') own negotiating freedom and flexibility. Popular frenzy led to tragic violence a year ago and introduced a new strain in the relationship between Tamils and Kannadigas, adding one more potentially divisive element in a country already torn by dissensions of various kinds. A fragile calm has been prevailing for some time, and fortunately it seems to have survived the strain imposed on it by the drama of the Tamil Nadu chief minister's brief fast and the attendant events. However, the situation is unstable and violence can easily erupt again. That must not be allowed to happen. The two governments must be persuaded to abandon their untenable extreme positions and to seek a fair and reasonable settlement. Goodwill between Tamils and Kannadigas must be restored and strengthened. This requires as a first step a campaign to rescue public opinion in the two states (and in Pondicherry and Kerala) from the miasma of error, confusion, prejudice and anger which has clouded it. It is necessary to promote a clear understanding of the evolution of the dispute and the points at issue, and of the lines on which a fair and reasonable settlement which will do justice to all the four basin states can be reached.

For achieving those purposes, we can ask for no better aid than the monograph under review. It gives a compendious and succinct account of the history and nature of the dispute; presents conflicting points of view and concerns fairly and objectively (though the author makes his own views clear where necessary); is lucidly written and (despite the formidable scholarship behind it) eminently readable; reproduces the basic documents and gives a bibliography; and is attractively produced. It would not be an exaggeration to describe the monograph as definitive. It deserves the widest possible dissemination in all the four basin states, and for this purpose it needs to be brought out as quickly as possible in Tamil, Kannada and Malayalam. Leading citizens in all four states, and particularly in Tamil Nadu and Karnataka, should jointly organise meetings, conferences and seminars, in an effort to replace chauvinism and hostility by san-

ity and goodwill. The author and publishers of the monograph have provided a solid basis for such an effort, and deserve our gratitude.

DIAGNOSIS AND PRESCRIPTION

The essential difficulty in the dispute, as Guhan points out, is that it involves not the sharing of hitherto unused waters but a resharing of a river which is almost fully utilised. Tamil Nadu feels threatened because its long-established irrigated agriculture based on a substantial use of Cauvery waters, with a centuries-old history behind it, is now vulnerably dependent on diminished and diminishing flows as a result of upstream development. It therefore tends to take its stand on past agreements and on the principle of prescriptive rights arising from prior appropriation. Karnataka feels that its late start on irrigation should not mean any curtailment of its rights to make the fullest possible use of Cauvery waters for development, and being the upstream state, it is in a position to abstract or store the waters at will. It tends to regard the Cauvery as *its* river to be used as it likes, with only residuary flows going to Tamil Nadu; thus virtually, if not explicitly, asserting the Harmon doctrine. The solution lies in moving away from both the prescriptive rights doctrine and the Harmon doctrine, and accepting the principle of equitable apportionment for beneficial uses. The Helsinki principles provide a useful basis for such a settlement. Tamil Nadu must realise that historic flows cannot be restored; that it has to learn to live with reduced flows; and that it can do so through a combination of better water management, avoidance of waste, conservation of rain water, conjunctive use of ground water and surface water, and changes in cropping patterns. Karnataka must recognise that Tamil Nadu is a co-riparian with a *right* to share in the waters of the common river and not a poor relative asking for charity; and that long-established irrigated agriculture and the way of life built around it should not be unduly disrupted. With that kind of wisdom on both sides there should be no difficulty in arriving at a reasonable settlement, which would also take care of the needs of Kerala and Pondicherry (Karaikal).

That little capsule version of the dispute and its possible solution may not be entirely couched in Guhan's words; but it is hoped that it does not distort either Guhan's diagnosis or his prescription, with both of which the reviewer is in complete agreement. Other

elements in Guhan's proposals are: that the allocation of waters should be in terms of *shares* and not *quantities*; that there should be an integrated operation of the basin reservoirs; that the two states should both separately and together do all that they can to *augment* the available supplies through conservation, pollution control and additional storages, etc. (Some of these ideas were part of the 1976 proposals on which the government of India prematurely announced an agreement which in fact did not materialise.)

Guhan does not specifically include in his proposals the idea of a Cauvery River Authority, which was an important part of the GOI proposals of 1976. Perhaps he felt that any reference to such an Authority might raise hackles in Karnataka and hinder the acceptance of his other proposals. However, is co-operation of the kind that he is advocating possible without institutional arrangements? Or does he hope that the processes of co-operation would themselves gradually evolve into institutional arrangements?

Guhan has some general observations to make on the undesirability of jumping from negotiation to adjudication and the importance of 'intermediate' processes such as mediation, conciliation, arbitration, etc., and some comments on the adjudication mechanism provided by Article 262 of the Constitution and the Inter-State Water Disputes Act 1956, including an endorsement of a recommendation of the Administrative Reforms Commission for a mandatory three-year period for mediation after a state government requests the establishment of a tribunal. This reviewer has reservations on some of these general points, which it is not necessary to enter into here. Instead, he proposes to add a bit of anecdotal history to Guhan's account, drawing on his own involvement in these matters in the years 1985-87 when he was secretary, water resources, in the government of India.

CENTRE'S EFFORTS

In 1985-86 many persons—civil servants, engineers, eminent public men—in both states privately expressed the view that a tribunal was the only way out, and that the sooner it was set up the better it would be. Mediation had been tried: Guhan himself records the centre's mediatory efforts in the 70s. It was a great pity that the valuable opportunity presented by the government of India (GOI) proposals of 1976 was allowed to slip. The temper in the two states was evidently not favourable to mediation or conciliation. Thereafter, the central government was preoccupied with a number of things: changes of government in 1977 and 1980, troubles in Assam, the emerging Punjab problem, Operation Blue Star, the assassination of Indira Gandhi, the political difficulties which engulfed Rajiv Gandhi

soon after his brave start, and so on. It seems therefore somewhat unfair to blame the centre for not persisting with its mediatory efforts. Nevertheless, the central government did make one more effort by convening a meeting in Bangalore in June 1986; but by then Tamil Nadu was firmly convinced that a tribunal was the only answer. When, after formal initial statements by the four state governments, the union minister of water resources proposed detailed discussions, the chief minister of Tamil Nadu folded his hands in salutation and said rather dramatically: "No more talks, please set up a tribunal". The meeting came to a precipitous end.

It may be added that another constructive, though more modest, effort by the centre also failed. The inter-state dispute on the Cauvery had resulted in the blocking of a number of projects in the basin states, as the Central Water Commission could not clear them from the inter-state angle for inclusion in the plan. An attempt was made by the centre to obtain the consent of the states to the clearance of a limited number of projects in Tamil Nadu, Karnataka and Kerala—around a dozen in all—which did not involve the consumptive use of water (e.g. hydroelectric projects), or which were projects of high priority (e.g. drinking water projects) not having a significant bearing on the inter-state water allocation. Unfortunately, an inter-state meeting convened for this purpose (in 1986) failed, because none of the states was willing to agree to any project being cleared so long as the inter-state river dispute was pending. This again is illustrative of the prevailing attitudes.

The monograph says (p 20) that the government of India's approval for a project for the modernisation of irrigation and drainage in the delta, which would have resulted in economy and efficiency in water use, has been withheld because of the dispute. This is true, but something more needs to be said. The government of India did try to clear the project, but a crucial justification for the project, namely, that it would save water, could not be formally taken into account, because Tamil Nadu government was unwilling to commit itself to such a statement, much less quantify the saving, for fear that this might compromise its position in the inter-state dispute. (This was the position in 1986; the reviewer is not aware of subsequent developments.)

Guban says correctly that the National Water Policy (1987) does not include any guidelines for the settlement of inter-state water disputes, and proceeds to argue that securing agreement on a set of guidelines would have been difficult, and that in any case this was not necessary, as the Helsinki rules are adequate for the purpose. He may be interested to know that this was in fact the precise explanation for this apparent omission in the National Water Policy. The effort at that stage was to bring about a transformation from a near-total preoccupation

with irrigation projects (particularly large ones) to an awareness of issues of resource policy and resource management, with due regard to considerations of equity and the newly emerging environmental concerns. For this purpose it seemed necessary to secure a national consensus on a set of general statements which could then provide the basis for further plans, policies and actions. To get the states to concur in a document which described water as a national resource was difficult enough; it would have been far more difficult to get agreement on a set of guidelines for the settlement of inter-state river water disputes. Any such attempt would have got bogged down in endless debate and the National Water Policy would not have seen the light of day. This seemed a needless complication, as tribunals had been giving their awards drawing on court decisions from other countries, the Helsinki rules, etc.

MASTERLY WORK

Those few paragraphs were intended merely to bring some bits of private recollections into the public domain, and not to imply any qualification of the agreement expressed earlier with Guban's proposals for a settlement. However, may one at this stage offer a few minor comments on some points of detail? (i) The usefulness of the map provided would have been enhanced if all the place-names mentioned in the text (Chapter 1) had figured in the map. (ii) The date of the Indus Treaty was 1960 and not 1961 (p 50). This is probably a misprint, as

the correct date is given on the next page below the photograph. (iii) The brief account of Indo-Nepal and Indo-Bangladesh talks on river waters (pp 51-52) presents too rosy a picture. The realities are far more depressing. Neither Indo-Nepal nor Indo-Bangladesh relations in respect of river waters or projects can be described as success stories; they are stories of profound failures of understanding and goodwill. (iv) Haryana is certainly a member of the Bhakra-Bes Management Board now, but it cannot be strictly said to have been a party to the 'development' of the project (p 52) as it was not in existence at that time. (v) The reference to the River Boards Act 1956 as a dead letter (p 54) is correct; it is also true that control boards of an administrative nature have been set up for the execution and operation of specific inter-state projects (e.g. Betwa Board, Bansagar Control Board, etc.). However, some boards or other similar authorities with functions going far beyond those of an administrative nature have been set up through specific legislation though not under the River Boards Act (e.g. Damodar Valley Corporation, Brahmaputra Board); but it must be admitted that these have not been wholly effective.

In conclusion it needs to be stated once again that this monograph is a masterly work which should prove immensely useful in an understanding of the Cauvery dispute and in the promotion of mediation. One fervently hopes that it will prod persons of goodwill in both states into undertaking the kind of conciliation effort that is needed.

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Sunil Kanwar

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THAT the erstwhile-Soviet Union* and eastern Europe have undergone momentous changes in the recent past would be a rank understatement. Of course, these processes have not quite evolved fully, but it may still be of interest and use to gauge the direction, extent and success of the changes initiated in these economies. This book attempts to study various aspects of these changes. The papers in this volume have been arranged under three heads. The first deals with the process of integration of this region with the 'larger economic areas'. The second talks about the growth implications of this process. And the third considers the liberalisation of foreign trade which makes integration possible in the first place.

INTEGRATING WITH WORLD ECONOMY

In the past, the communist-bloc nations were practically isolated from the west and had primarily patron-client relationships with the third world. The recent process of transition has meant, foremost, a redefinition of these international relationships. More specifically, it has meant the bridging of the chasm between the east and west, often at the expense of east-south relationships. Thus, while east-west trade and aid flows have been increasing, east-south transactions are on the decline.

In the opening paper Harriet Matejka traces the process of 'East-West European integration'. The joint EEC-CMEA declaration of June 25, 1988 made explicit the desire to create a single pan-European market. Although, argues Matejka, this process of integration had been going on for quite some time (in the sense that the EC's share in the exports and imports of the CMEA countries had been rising gradually), it was only subsequent to this declaration that general agreements (trade and co-operation agreements in all products, rather than just sectoral agreements) were signed between the countries of the two groups. Similarly, the CMEA has also been integrating more closely with the EFTA countries since about mid-1990, although the importance of this group is far less to the CMEA than that of the European Community.

Matejka feels that, in practice, integration will be possible only to the extent that the east decentralises and introduces a market-based economic system; for a centrally planned economy lacks transparency, mak-

ing it difficult "...to verify the implementation of...integration treaties...". Such integration will, therefore, perforce be gradual and determined for the most part by the European Community.

While the importance of the pure-economic element in east-west relations cannot be denied, due recognition should be accorded to the political element. Focusing on a different aspect of integration, Heinrich Vogel takes note of the collapse of the Warsaw pact such that from the security perspective "...Eastern Europe is already part of a greater Europe". He, however, adds that the Soviet Union is still a major military power and its threat should be cautiously met.

Since restructuring is a painful, long-term process, the west must not adopt a wait and watch policy, for then it may be missing an important opportunity to promote the demilitarisation and economic restructuring presently under way. To this end, the west must initiate relief programmes for food and medical aid, purvey commercial loans and credit guarantees to those who invest in these countries, remove red-tape and distrust (on account of 'dual-use technologies') so as to promote trade between COCOM member countries, unconditionally co-operate with reforming nations and transmit the right signals to the political elite in these countries towards building a unified Europe.

Starting off from the premise that for the Soviet reforms to succeed they must have assistance from the relatively advanced west, Joseph Pelzman considers a specific form of such support—the granting of Most Favoured Nation (MFN) status by the US to the USSR. Will this provide a significant stimulus to Soviet exports and thence to the Soviet economy? Pelzman argues that Soviet exports will increase primarily through 'trade creation' (i.e., by substituting for the US domestic production) and not through 'trade diversion' (i.e., by substituting for other countries' exports to the US). Therefore, he attempts to quantify only the former. Using a "constant market-share model" he finds that Soviet exports would expand by a mere \$ 43 million. With the "variable market-share model" the expansion would be somewhat higher, ranging between \$ 140 million and \$ 170 million depending upon the assumption made about the growth rate of Soviet exports to the US.

Thus, the granting of MFN status to the USSR will probably not have any significant short-term impact on its exports to the US.

Wojciech Bienkowski and Masumi Hakogi point out that despite the potential for substantial trade relations between Japan and the CMEA countries given their large markets, this potential has not been realised to any significant extent. They feel that the major reason for the stunted growth of mutual trade lies in the centrally planned nature of their economies which has prevented them from being competitive in the international market. They suggest that in order to redeem the situation must these countries go in for not only economic reform but also political reform, for the two are mutually reinforcing.

While the recent past has witnessed an upsurge in west-east economic relations, there has been a commensurate decline in east-south relations. Donald Bowles shows that the amount of Soviet aid purveyed hit a plateau in the mid-1980s and started declining thereafter. Thus, in 1989, direct net economic aid (by western definitions) fell to about \$ 6.3 billion from a peak of some \$ 7.8 billion in 1987. Soviet assessments of such aid are higher than those based on western calculations since the latter do not include subsidies for partial payment to Soviet experts in LDCs, concessions on technical information and transportation of commodities, and lower-than-international prices paid for Soviet exports to these countries. On the other hand, there is often a lack of distinction between commercial transactions and aid, so that the so-called aid is really commercial credit. A case in point would be the Soviet supplies of military hardware to various countries, which account for a very substantial amount of total Soviet aid. Since payment is expected for such deliveries, this does not really constitute aid. Secondly, given that the rouble has always been overvalued, the amount of Soviet aid has been inflated to that extent. Therefore, although Soviet aid has had a trade-off in terms of resources diverted from their own economy, what exactly has this impact been is unclear given the facts that Soviet aid has been mostly credits (and not outright grants) and that the rouble has been highly overvalued.

Given the turbulent and painful process of reform under way in the erstwhile-USSR region, there has been an increasing tendency to curb aid in favour of domestic investment. In the near future this trend may be expected to continue, although international obligations towards the poor countries may still see a small amount of resources outflow.

Given the virtually complete paucity of published data, Siegfried Schultz stresses

the extreme difficulty in quantifying East German trade and aid performance. Presumably, the need to "hide figures" arose from the fact that much of the transactions related to military hardware. According to western estimates (based on the report of the Development Assistance Committee), East German aid increased from about \$ 156 million in 1970-71 to around \$ 184 million in 1987-88. This aid was made available on attractive terms, the repayment period being 8 to 15 years for reconstruction loans bearing an interest of 2.5 per cent to 3 per cent. Commercial loans attracted relatively higher interest of 4-5 per cent. An important aspect of East German aid was its focus on the personnel sector. This consisted of not only sending experts in different fields to the recipient countries to assist in education and training in those areas, but also providing places for their students in East German technical institutes and universities. The bulk of this aid was given to communist countries such as Cuba, Vietnam, Cambodia, Laos, Mongolia and Nicaragua. The amount of aid given was never very large, either in absolute terms or as a percentage of its GNP.

TECHNOLOGY TRANSFERS AND GROWTH

One very important aspect of integration from the long-run perspective is the transfer of technology from the west to east. This has long been viewed as a key component of economic growth and a major determinant of a country's ability to compete internationally. In the cold war years this perception led to extreme cautiousness, indeed paranoia, on the part of the western nations, to ensure as far as possible that the exports to the communist bloc were not of the 'high technology' variety. So much so that the western nations were picky about high technology exports to even the third world, lest they end up in communist hands. With the cessation of hostilities and, more importantly, the scaling down of the potential threat from the communist bloc countries, there has occurred a significant shift in attitudes *vis-a-vis* technology transfers. This section reviews to what extent this has, in fact, been successful.

Michael Bradshaw and Denis Shaw set out to study the influence of west-east technology transfers on Soviet regional development. Have such imports, they ask, been instrumental in solving regional problems such as labour shortages and environmental difficulties? They find that Soviet trade has been characterised by exports of mineral fuels and energy, and imports of food, manufactured goods and machinery and equipment. Over the last few years, the proportion of food imports to those of manufactured goods, machine-

ry and equipment has gone up. The authors feel that this is the result of costlier food imports reducing the funds available for other imports, disillusionment with the ability of imported machinery to increase domestic productivity, political considerations relating to the conflicts in Afghanistan and Poland, and declining international energy prices. East-west trade, the authors add, was used as a way of putting off domestic economic reform. On the basis of rather scanty data relating to some 1,800 contracts "...collected from the western press...", they find that the Volga and Central economic regions have been the major recipients of western technology. By implication, Siberia and the Far East have been relatively neglected. While the Volga and Central regions have been labour and technology sufficient, they are resource-poor. On the other hand, the Siberian and Far Eastern regions, though resource-rich, are labour scarce and have been deprived of imported technology. This mismatch between resources and factors of production is at the heart of Soviet economic problems.

Jan Maciewicz finds that until the mid-80s international trade was the chief vehicle of technology transfers between the west and east, the principal mode of transfer being machinery and equipment. While the major supplier of technology was the EEC, accounting for almost 75 per cent of such purchases by the CMEA countries, the major purchaser was the Soviet Union, accounting for 65 per cent of all such CMEA imports in 1985. Quite significantly, the bulk of these technology transfers comprised low-technology products. Since the mid-80s foreign direct investment has become increasingly important as a means of technology transfers. However, to date it has been mostly limited to Hungary, Poland and the Soviet Union, and that too in the manufacture of relatively low technology-intensive areas such as apparel, food and wood products and in transport and communication services. However, this is just the beginning and as the situation stabilises, things may improve.

While foreign direct investment has no doubt been increasing in importance as a source of technology transfers, to what extent has it been successful so far? Patrick Gutman studies the establishment of joint ventures under perestroika in the USSR as a means of overcoming the capital constraint. Foreign direct investment eases not only the domestic capital constraint, but also substitutes for foreign debt. By mid-1990 joint ventures had attracted only about \$ 2 billion. (Keep in mind that the Soviet economy is much bigger than the economies of the other CMEA countries.) To this extent, joint ventures do not seem to have succeeded as a means of attracting foreign

capital. Further, while the number of joint ventures seems to have increased from about 20 to over 1,600 over 1987-90, the average foreign share in a venture declined significantly over time. Thus, joint ventures appear to have been used as a means of gaining a foothold in potentially enlarging Soviet market. Foreign investors cautiously seemed to enter low-capital service industries, waiting for the risk to subside. But, perhaps the last three to four years is insufficient time to gauge the success of a policy.

Apart from the quantitative role, joint ventures also play a qualitative role by introducing new techniques and processes of production into the economy. Further, the new policies under perestroika mark an important ideological change in official Soviet thinking insofar as it allows property rights to foreign firms.

Jozef Misala studies the impact of joint venture law with specific reference to the Polish economy. Introduction of foreign capital was allowed into the Polish economy as early as May 1976, although that opportunity was limited to non-resident poles and that too in the field of small-scale production. However, till end-1988 the contribution of foreign small-scale enterprises was minimal. Although they totalled 764 in number, their share in national employment was a meagre 0.4 per cent, their share in national industrial output only 1.4 per cent, and their share in foreign trade less than 1 per cent.

The second stage of foreign capital inflows was marked by the allowance of joint venture companies in 1982-83. But this policy failed similarly. Till end-1988, there were only some 40 such companies, accounting for \$ 23 million of foreign capital and an employment of 6,700. Their share in Polish exports totalled less than 0.1 per cent.

With the establishment of the first non-communist government in August 1989 and the subsequent radical restructuring of the economy, the third stage of foreign investment was started with the setting-up of the Foreign Investment Agency in January 1989. Several amendments were made to the foreign investment laws—allowing an initial three-year tax exemption, virtually perfect freedom to choose the area of production, reasonable rates of corporate tax, permission to repatriate a part of the dividend, etc. While these developments did see a spurt in the number of joint ventures (with the number of permits issued increasing to 1,145 by 1990), they accounted for only about \$ 186 million of foreign investment, employed only 0.5 per cent of the labour force, constituted only 2 per cent of Polish foreign trade, and were primarily concentrated in low-technology industries such as food and wood products. Several impediments need to be

removed from the extant laws if the perception of foreign investors has to be changed about investing in Poland today.

Horst Brezinski considers the experience of joint ventures in Poland on the basis of questionnaires answered by 62 companies (out of a total of 336 which existed at the end of 1989). He makes much the same observations as Misala above. Considering the question as to why foreign partners prefer joint ventures over other forms of co-operation despite the relatively higher transaction costs and risk associated with the former, Brezinski feels that this is primarily due to the fact that a large proportion of the foreign investors are really non-resident poles. Their knowledge of the local economic and social set-up and their familiarity with Polish seem to be features which outweigh the risks involved. The respondent firms identified low labour costs, the possibility of circumventing trade frictions and access to east European markets as the three most important determinants of their decision to set up joint ventures. In addition, free production capacities, cheap raw materials, sufficient skilled labour and low real estate prices are also mentioned as conducive factors. The bottom line, however, is that these companies make insignificant contributions to Polish output, employment, exports and technical upgradation. A lot more needs to be done in this direction before their impact becomes quantitatively sizeable.

LIBERALISATION OF FOREIGN TRADE

In order to stimulate trade between the east and the rest of the world (particularly the west), the foreign trade regime must be unshackled of various controls. Only then can it have the chance to grow and facilitate closer relations with other countries.

Erik Hoffman points out that it is not merely the Soviet Union that is carrying out important reforms in its economy and policy, but also several other commercial blocs in the world, thereby making it difficult to pronounce on the net impact of these changes. He avers that although Gorbachev initiated some very basic restructuring in the Soviet Union, "...cultural revolutions do not take root in short periods of time". Initially Gorbachev felt that selective perestroika in regard to some of the basic ills afflicting the Soviet system (such as a shift to private ownership, the institution of the market and a shift from defence and space projects to consumer production) was enough to engender social and economic development. But soon he realised the existence of vested interests within and without the system that were thwarting in various ways the changes set in motion by him. He realised that a comprehensive overhaul

of not only the economic set-up but also the entire political structure was a pre-requisite for such reforms to come to fruition. While changing the official line was relatively easy, changing the wider political ethos proved much more difficult. Serious contradictions arose within the (communist) party and between the various political groups in general, leading to complete chaos, a breakdown of the system and its disintegration.

Krystyna Szymkiewicz makes an in-depth study of the liberalisation of the Polish foreign trade regime. It carries forward the above-noted studies by Misala and Brezinski. She notes that prior to 1990 the decentralisation was carried out only with respect to trade with countries using convertible currencies. But these measures failed to either decentralise decision-making or stimulate foreign trade. It was evident that piecemeal sectoral reform would not suffice. Subsequently, therefore, all of Polish foreign trade was liberalised. Initially, this proved to be very favourable, with Poland notching up substantial surpluses with both the CMEA countries and the General Currency Area countries. But from 1991 onwards things became more uncertain given the massive restructuring in the other CMEA countries. Poland's trade with these countries has declined sharply, and it is not clear what the scenario is going to be in the near future.

In the tail paper, Istvan Salgo notes that the east European countries are caught between two big problems. As they reform and open up their economies, intra-CMEA trade has fallen significantly. This is primarily because fuel and raw material supplies from the Soviet Union have fallen, impacting upon the potential purchasing capacity of the smaller CMEA countries. With the shattering of the Soviet economy, the Soviet-centred foreign trade model came to be questioned, leading to its abandonment. On the other hand, their trade with the rest of the world has not increased to any significant extent. Consequently, there has been pressure to maintain intra-CMEA co-operation. Salgo feels that the consensus is that the *status quo* is untenable. However, where ultimately the system will come to rest is rather ambiguous.

It may strike the reader that although this book was written a while ago, the intervening period has not proved sufficient for the situation to stabilise. Indeed, this period has witnessed considerable political and economic turmoil in this region. As a result, the scenario today is not significantly different from what it was when this book was put together. Perhaps the instability is even higher in some parts of this region than it was in mid-1990 (what with inflation, strikes,

ethnic strife, etc., ravaging the former USSR, for instance). It is almost as if the perspective offered by the intervening period were of no use at all.

One caveat which recurs throughout the volume is the paucity of reliable published official data for these countries. In the event, researchers often have to piece together information from diverse western sources, often mere estimates.

Curiously, none of the papers in this book analyse the impact of the reforms being undertaken on the agricultural sector in these countries. Traditionally, this has been the most important sector in terms of employment and exports. Therefore, it would be of interest to learn whether the reforms have stimulated agricultural production, employment and exports (or decreased the import burden, particularly in the case of the Soviet Union).

Another intriguing aspect of this collection is its emphasis on Poland, to the exclusion of other east European countries. It may be of interest to look at the reform processes and their relative success in the other nations and try and figure out the reasons why the same policies are proving differentially successful across countries. This may help in tailoring the said policies appropriately.

The restructurings in this region are actually part of a global move towards privatisation. The issues taken up in this volume are of interest to India even though we have not had to restructure our economy so radically as have some of these countries. Even we are trying out some of the policies discussed here to achieve similar ends. And we have had similar disappointing experiences despite the different economic and social milieu in which we operate and despite the historically different 'starting points'. Two lessons emerge from this. First, one cannot go about the reforms in piecemeal fashion. Since things hang together, you need to overhaul the system pretty completely. Second, one cannot expect the reforms to work immediately. It takes a long time to alter the domestic ethos. After all, altering the basic work ethic and ideologies are changes that take a long time to strike root. On the international scene, again it takes time to alter the earlier image. People will not lunge headlong for expected gain, but will also look at the associated risks. If the risks are too high they would rather wait.

Note

* When this book was published the USSR had not yet disintegrated. Therefore, when I refer to the USSR (as I do for convenience), I obviously mean what was then the Soviet Union.

'Rent-Seeking', New Political Economy and Negation of Politics

Amya Kumar Bagchi

The concept of rent-seeking is a direct by-product of the new political economy which started out as a development of the old 'interest group' or elite theory of politics. There is nothing particularly novel about the idea of earning rent as an obstacle to progress. What is novel is a deliberate restriction and in some cases an arbitrary redefinition of the concept of rent-seeking and its application to denigrate all government intervention and virtually abolish the domain of politics in the LDCs (and in the developed economies as well).

I

New Political Economy Applied to LDCs: Sidetracking the Central Problem

THERE is a saying in Bengali, 'chorer mar gala baro', which means 'the mother of a thief has a loud voice'. I am strongly reminded of that saying whenever there is yet another salvo on rent-seeking from economists who have been associated with the World Bank and the International Monetary Fund, two of the organisations which have thrived on monopoly rents and subsidised credit and which look after the interests of some of the most avid rent-seekers in the world, viz, the transnational banks and transnational corporations. These champions of free competition see only big government in the role of facilitators of rent-seeking and the government politicians and bureaucrats legislating and administering such rent-seeking as the main beneficiaries of such rent-seeking activities. The activities of private monopolies earning rent or of the landlords whose income after all was classically known as 'rent' typically escape their eagle eye.¹

A children's story in Bengali aptly illustrates their view of government, especially of government in the LDCs [Mitra Majumdar 1924]. Ramdhone Sarkar, a poor but clever young man, seeks employment with a king. The prince gives him a job but no pay. Ramdhone Sarkar proceeds to carry out his assigned duties in such a way as to cause inconvenience to householders and merchants and then makes them pay him for altering his *modus operandi* so as to cause them less inconvenience. For example, the king orders him to measure the lengths and sizes of roads and houses in the capital. Sarkar proceed to lay his chains down across people's houses, disturbing their daily lives, threatening to pull down walls, etc, and making a thorough nuisance of himself. So the people affected proceed to pay him so that he carries out his measurements at less inconvenient times, and with less threat to the houseowners' peace and property. Then

he is given the job of counting the waves on the river. Sarkar proceeds to do so, and orders all boats to cease moving until he has finished his counting, since their movement would disturb the waves! Naturally the passengers, the boatmen and the merchants pay him in order to allow them to carry on their daily business. In this version of the story told by Mitra Majumdar, Sarkar deposits all his gains (are they illicit or legalised extortion?) at the feet of the king, who then rewards him with a well-paid post, and he goes ever higher in rank. Except for the honesty part in Sarkar's story, it epitomises the view the 'new political economy' holds of government and government regulation.²

The concept of rent-seeking is a direct by-product of the 'new political economy', which started out as a development of the old 'interest group' or elite theory of politics associated with Robert Michels, Gaetano Mosca and Vilfrade Pareto and a host of their American followers [Bottomore 1964]. In its updated formulation, it seeks to explain most political developments as the outcome of competition between political entrepreneurs seeking to maximise electoral support and thereby maximise their incomes as well.³ The connection between the new political economy and the new right is clearly established through its intellectual genealogy. It runs straight through Ludwig von Mises, Friedrich Hayek and Joseph Schumpeter of the Austrian school to Milton Friedman, Anthony Downs, Gordon Tullock and James Buchanan of the Chicago-Virginia school [cf Gray 1989 and Helm 1989b].

That wasteful expenditure is inimical to development was a cardinal tenet of classical political economy. But for Ricardo, or James Mill, or for that matter, Leon Walras or Henry George, the biggest single source of such wasteful expenditure and the major internal stumbling block against progress was the monopoly control of land by landlords. In India and the LDCs in general also, both before and after independence, landlords, and their role in the politics and economics of the countries concerned had

been the subject of analysis by Wolf Ladejinski and George Rosen (1966) on the one hand, and such Gandhians and Marxists as J C Kumarappa, Bankim Mukherjee, Bhowani Sen and Ashok Mitra (1968, 1979) and many other radical analysts of the Indian economy and society on the other. So there is nothing particularly novel about the idea of earning of rent as an obstacle to progress. What is novel is a deliberate restriction and in some cases an arbitrary redefinition of the concept of rent-seeking and its application to denigrate all government intervention and virtually abolish the domain of politics in LDCs (and in the developed economies as well).

In most LDCs from the Philippines through south Asia and Africa to Brazil and Peru, the biggest single group of rent-earners are still landlords and rich farmers. But in many countries, landlords, in collaboration often with transnational corporations, are busy transforming their estates into plantations owned by joint-stock companies [Grzybowski 1990; and Lara, Jr and Morales, Jr 1990]. Such a development, of course, has a long history in the so-called banana republics of Central America. On the other hand, the countries of east Asia which are the only ones to have experienced sustained economic growth between 1965 and 1990 are all countries that had succeeded in getting rid of landlordism after the second world war [Bagchi 1987a, 1987b; Deyo 1987; Haggard 1990]. Any political economy exercise which fails to take account of the effect of landlordism on the working of society and markets and the use of the surplus generated in that society, or take account of the influence of the abolition of landlordism on the incentive structures and the use of the surplus in LDCs can have but a rather feeble explanatory power.

Most of the LDCs, again with a few exceptions in east Asia and a few scattered outliers in other parts of the globe, are plagued by a high degree of poverty, high levels of illiteracy and infant mortality, a low expectancy of life and a low degree of freedom [Deyo and Sen 1989; UNDP 1991

and 1992]. In the 1980s, the degree of poverty increased in most LDCs outside east Asia, and the human development indicators in many cases went into reverse gear, especially in sub-Saharan Africa [Cornia, Jolly and Stewart 1987, and Stein and Nafziger 1991]. Again, any political economy exercise that fails to explore the probable consequences of an extreme insecurity of life for the perceived trade-off between freedom of choice and the chance of survival is not explaining very much of the way the lives of the majority of human beings are influenced by larger social, economic and political factors.

Thirdly, most of the new political economy exercises are strangely silent about the influence of external geopolitical and geoeconomic factors [cf Bagchi 1971 and Toye 1987 and 1991] although there is plenty of evidence that the strategic choices by the superpowers, and especially the US and her allies, and the attitudes of transnational corporation, transnational banks, the IMF, the World Bank and internationalised domestic capital have strongly influenced the destinies of most LDCs. The policy choices of a typical LDC, especially in the 1980s, were overdetermined by the perceived self-interest of the dominant politicians, owners of capital, the landlords and the bureaucrats in collaboration with the dominant external interests. The interest of the latter in forcibly 'opening up' the economy and various sequences of political acts led the particular country, with the inevitability of a Greek tragedy, into a debt trap. The political economy of attempts to roll the state back through measures of internal and external deregulation of trade and production, financial liberalisation and privatisation would largely consist in trying to disentangle the knots of overdetermination in the interaction between the changing interests of the various fractions of the ruling class, the power exercised by the external interests and the sequence of events which seem to close all options to the ruling class except that of subservience to the dominant external interests. As the collaborating political elites glide into the crisis situation, the internationalised domestic capital, bureaucrats and technocrats, with help from the dominant external interests and very often help from the government as well, launch a propaganda drive, and set up 'think-tanks' which seek to swamp both the media and the academic establishment with neutral-looking policy documents directed towards the one goal of opening up the economy and clipping those wings of the government which seek, however misguidedly and however inadequately, either to protect domestic industry and infant technology or to succour the poor.

II

Rationale of State Intervention and Fictive Story of State Intervention Told by New Political Economy

Economists have theorised about the relationship between the private and the public sectors in a private enterprise economy along two different trajectories. The first trajectory has primarily used the concepts of normative economics (which is broader than 'welfare economics' in the narrow sense and also has a pedigree going back at least to the days of Adam Smith). The state should try to put in place laws and regulations which take care of external diseconomies generated by the private sector. On the other side, the state should also take the responsibility of providing those goods and services whose social benefits clearly exceed their social costs but which private individuals or firms might not find it profitable to supply [Baumol 1952; Arrow 1974; Helm 1990b]. The proponents of the new political economy have tried to upset even this part of the agenda of the state with the so-called Coase theorem [Coase 1960] which is better styled as the Coase conjecture or even the Coase fallacy. This states, roughly speaking, that if property rights are well defined and can take care of all conflicts of interest, then people suffering from external diseconomies caused by the activities of another party can always negotiate a solution which will fully compensate the victims for the damage suffered by them. There are at least two major fallacies associated with such a conjecture. First, it is assumed that different parties to a negotiation regarding the sharing of costs and benefits have roughly equal bargaining power and that there is little chance of one party suffering all the costs while the other party walks away with all the benefits. The second problem with the Coase conjecture is the assumption that well-defined property rights are normal, and if they are not, property rights and contracts can be so defined as to take care of all contingencies. This assumption is no less absurd than the supposition that the whole system of markets and fully insurable uncertainty required for an Arrow-Debreu general equilibrium to hold can be actually observed or even conceivably prevail in the real world. To give an example from the Indian experience, the Arrow conjecture is equivalent to assuming that the slum-dwelling victims of the Bhopal gas disaster could have entered into a contract with Union Carbide guaranteeing them adequate compensation for the eventuality of the release of the poison gas during the operations of the company.

Returning to the traditional domain of normative economics defining the agenda of the state [see, in this connection, Arrow 1974], we should point to at least two other interconnected sets of objectives that were

supposed to belong legitimately to the sphere of the state in all economies seeking to stimulate economic growth. The first was correction for market or co-ordination failures in the general area of production of goods and services [Dobb 1960; Sen 1960; Stiglitz 1989]. Market failures can arise in numerous ways. The economies of scale in the production of some goods and services may be too large for any private firm in a typical LDC to venture on the enterprise, especially if predatory invasion of the field by TNCs before the new venture has been established cannot be ruled out without explicit state protection. Similarly, the initial capital requirements may be too large for a private venture, especially if the market rate of interest is high because of the lack of development of financial intermediaries and the lure of employment of funds in speculation and usurious consumption loans. Again, private agents may lack information about the plans of one another and the state can try not only to act as a channel of information but also as an umpire ensuring that the different agents keep to their side of the bargain. Co-ordination of private economic activities and production of goods and services by the state would then come on the agenda of the state and would be designated as planning. Whether the elimination of 'the secondary uncertainty' [Koopmans 1957] arising from strategic calculations of private agents involves actual entry of the state as a producer or not will depend very much on local contingencies. In the case of India, for example, the state extended heavily subsidised loans to private steel producers even as it ventured on the production of steel in large, integrated steel plants.

Planning and state intervention did not have the objective only of correcting static market failures or of sectoral market failures. They were also aimed at raising the rate of growth of the economy by raising the aggregate rate of saving in the economy and thereby supporting higher rates of investment in physical and human capital and in R and D activities. The source of a suboptimally low rate of saving had been variously identified as the 'failure of the telescopic faculty', and unimaginative myopia [Dobb 1960: Chapter 1]. Sen (1967) had added 'the isolation paradox' as an explanation of suboptimality in rates of saving and also provided a justification for state intervention in this area: an individual may feel that if he increases his rate of saving without being sure that other people are saving more, then this abstinence may merely enable somebody else to have a splash without adding to the welfare of the next generation by increasing the size of the capital stock at its disposal. In this case, the state may step in to guarantee that all individuals save more, through suitable schemes of taxation, deferred pay or forced saving in other forms.

An attempt was made (again mainly by the adherents of the new political economy) to show that individual saving can never be suboptimal. But Akerlof (1991) has argued that even in the US, that haven of free enterprise, most of the elderly derive whatever incomes they have from pension plans (i.e., through forced saving engineered by firms and other employers) rather than from financial assets that may be taken to be the product of their voluntary thrift.

State intervention aimed at raising the rates of investment may not be sustainable, (a) if there are serious mismatches between the outputs of the investment programmes and the expenditures flows generated by the private sector, and (b) if state plans for raising the rate of saving are defeated by the private sector failing to meet the gap between total national investment and public saving [cf Bagchi 1970]. The latter failure may paradoxically take the form of burgeoning fiscal deficits since the state fails to tax the incremental incomes of those sections of the private sector which benefit most from its policies.

In many LDCs, the government embarked upon a conscious policy of state accumulation since it found many of the private financial institutions inadequate vehicles of investment and it did not trust the landlord class to save and invest enough. The strategy of incorporating the landlords in the state's agenda of accumulation may produce elite consensus but by and large it defeats the programme of accelerating economic growth because landlord power continually interferes with the functioning of the market mechanism, and depresses the incentive to invest on the part of most economic agents.

We have in the above sketch ignored one possible objective of state intervention, namely, to redistribute incomes and consumption so as to lessen the degree of inequality in the standards of living. I would claim that with a few exceptions among non-communist LDC (such as Sri Lanka and perhaps Costa Rica) the egalitarian impulse has been a rather feeble one among the motive forces activating LDC governments. One reason for this has been a lack of clarity among policy-makers about the relation between a more egalitarian income distribution and economic growth. If the rich only save, then a less egalitarian distribution will accelerate growth. But if the rich save only a small fraction, and it is easier to tax the poor and use the proceeds mainly for accumulation, then an egalitarian policy stance channelling more incomes towards the poor may well lead to a higher rate of saving and growth. Alternatively, if better health measures and better education for the poor raise the productivity of workers, then again a more equalising state policy may promote growth. Finally, redistributive policies may

well iron out cyclical fluctuations and promote growth in the long run, if deficient demand plagues major sectors of the economy from time to time (on the assumption that the average and marginal propensities to consume vary inversely with the level of income per head). In an atmosphere of muddled thinking and lobbying by vested interests, economic policy-makers have generally turned their face against more egalitarian policies.

What has all this to do with the 'positive economics' of the new political economy? The new political economy derives most of its assumptions from the experience of the pork-barrel politics and the log-rolling tactics perfected by the US politicians. As Findlay (1991) rightly points out, that analysis has little relevance in countries run by various types of dictatorial or authoritarian regimes. But even within democratic regimes, when the proponents of new political economy claim that the state expands only because politicians want to raise electoral support by providing more jobs for the boys, or because bureaucrats gladly connive with the politicians to create more situations to lord over and to derive both lucre and psychic satisfaction from, they are in effect denying the relative autonomy of the state that the more mechanical Marxists are accused of [cf Miliband 1969, 1972; and Poulantzas 1972a, 1972b]. What the new political economy refuses to recognise is that actual or aspiring capitalist groups may actually support the expansion of the state in their own long-term interest and that the growth-promoting politicians may enjoy wide electoral support by promising 'pies in the sky' and jobs in the distant future rather than jobs for the boys right now. Something like this happened in the near-consensus that the Indian elite displayed practically throughout the time that Nehru was prime minister of India [Bagchi 1991a].

However, the different classes benefit very unequally from the growth-promoting activities of the state. The larger private sector groups tend to benefit disproportionately from protected markets, subsidised credit and other subsidised inputs provided by state enterprises. Landlords and rich farmers also wax rich from increases in state expenditure. These are the classes which then try to roll the state back because in their perception the state is grabbing too high a share of the national resources. There may be a 'crowding in' or complementary effect between state expenditure and private investment in the initial years. But this does not prevent allegations by private business of being crowded out by the state when capitalists cast a longing eye on profitable state enterprises or on foreign exchange resources used by the state in one form or another. Paradoxically enough, the pressure to change the policy stance of the state may

grow especially when the private sector does badly in external markets, because then its need to get a larger share of the domestic market and of increasingly scarce foreign exchange resources becomes all the more urgent. In their fight to grab the commanding heights manned by the state, the domestically powerful private capitalists and landlords may, of course, be helped by transnational corporations and their backers among international financial institutions (including the IMF and the World Bank) and by that section of domestic capital and the technocracy which becomes internationalised.

Over a time span of, say, 50 years, one can discern a predator-prey relationship between the private and public sectors in a private enterprise economy. As is well known from the epidemiological literature and from applications to growth cycles made by Goodwin and others [Lotka 1956 chapter VII; Goodwin 1967; Gandolfo 1971; Appendix III and Desai 1973], under quite general assumptions about the behaviour of predator and prey, the population of the prey declines as the predator infests it, and then the population of the predator itself declines as its comestibles decline in volume, and then the prey population gathers new strength for the predator to feed upon it with new ferocity. If we picture the private sector as the predator and the state as prey, we can see that as the state extends its activities and helps produce more wealth, the well-heeled part of the private sector gathers strength and wants to occupy territory it regards legitimately as its own and gobble up state enterprises. But if the private sector fails to acquire telescopic sights and take over the accumulation function of the state or invest enough in R and D activities, or prevent the burgeoning of external diseconomies (pollution, depletion of exhaustible reserves, etc) which eat into private productivity and profit, society, including even the wealthier part of the private sector, will demand the extension of state activities and relative or even absolute shrinkage of the territory occupied by the private sector, and the cycle will start again. (We may well be witnessing the beginning of such a move to roll the private sector back in the US.)

As against this perspective, there is a tendency in the literature of new political economy to see the determined drive of the authoritarian or neo-liberal regimes in Latin America to cut down government involvement in the economy as mainly the result of the recognition that burgeoning national and international competitiveness and unmanageable costs of transactions and management through public enterprises have caused the obsolescence of the latter [see the studies brought together in Larrain and Selowsky 1991; and Jones, Vogelsang and Tandon 1991]. The aggressiveness of TNCs

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and transnational banks out to grab valuable chunks of LDC public enterprises at a low price (in debt-for-equity swaps), the fiscal crises of the LDC states unable to tax the domestic rich or cope with the fall-out of the debt crisis and the spread of a Reaganite ideology have as much to do with the tilt against the public sector as with its real or imagined inefficiency. As Alice Amsden (1991) pointed out in her comment on Jones, Vogelsang and Tandon (1991), the theorists of the new political economy seem to be singularly blind to private rent-seeking by dominant firms in a world of supposedly free competition, and of oligopolistic rigging of prices and sharing of markets in reality. In view of the failure of TNC magic to reflate the major portion of the world economy and the resurgence of a school of policy-makers favouring interventionist industrial policies and increasing concern with environmental damage and a demand for public concern to contain it, I would hazard the guess that the predator-prey cycle of public-private enterprise alternation is likely to reassert itself. (Of course, there is a trend towards increasing mercantilisation of economic activity and the small-scale private sector may continue to gain even when the state again begins to take over capital and R and D-intensive sectors.)

In political systems such as those of the LDCs in which external interests have become too powerful, this process of pushing the unproductive private sector back may become very difficult, because TNCs, transnational banks and domestic investors with strong foreign ties can invoke the sanctions of the OECD countries on their side. This is where old-fashioned imperialism may reappear in a naked form. Naturally, the new political economy would have nothing to do with such illegitimate crossing of the boundaries of discourse it has set for itself.

Interestingly enough, the resurgence of imperialism is often legitimised in the name of radicalism as well as of new political economy. The argument here is very simple. The project of building state capitalism was a project of the national bourgeoisie. The contradictions of that system converted the national bourgeoisie into comprador bourgeoisie. There is no other group to guard the boundaries of, and strengthen the home market. Hence the only option left is to give up the project altogether and welcome all comers. But who are the candidates waiting to take over in the home economy? They are mostly wheeler-dealers, and transnational corporations. The transnationals may have a project of taking over domestic enterprises with valuable assets and increasing their share of the home market however narrow it might be. But why should a transnational want to complete the transformation of a society which proved to be intractable for

the national bourgeoisie? In these days of an active and volatile international market for firms, today's Glaxo may merely be the property of some unknown Texan oil billionaire tomorrow. And what are the political resources at the command of the TNCs? They can control presidents, prime ministers, whole houses of parliament, and can make or unmake dictators. But can they enter the interstices of landlord-dominated societies without middlemen?

The likelihood is that the country will be left not with state capitalism with landlords and bourgeoisie as allies but with TNCs as the top dogs and the landlords and the remnants of the domestic bourgeoisie as subordinate collaborators, with the disastrous consequences that have been too well documented for Ivory Coast, Liberia, Argentina, Brazil or Bolivia.⁴

III

Landlordism, Rent-Seeking and Dynamics of Semi-Feudal Democracy

In their enthusiasm to demolish any classical, Marxist or even neoclassical propositions about the malign effects of landlordism, the adherents of new political economy have sought to demonstrate how, if contracts are suitably drawn up, the form of ownership ceases to matter and the market can operate to ensure the efficient allocation of scarce resources. The *locus classicus* in this respect is Cheung (1969). According to Cheung's analysis, it is the degree of riskiness and the relative values of transaction costs which would determine choices made by landowners and workers on the land as between fixed rents, share-cropping or wage contracts. Alfred Marshall had claimed that share-cropping would always produce an inefficient solution, since given a market wage which is always available to the share-cropper or worker, labour use on share-cropped land would not be pushed to the point at which the market wage would equal the value of the marginal product, but only to the point at which the market wage equals half the value of the marginal product. Cheung's analysis amounted effectively to changing the value of the marginal product schedules and/or the cost schedule under different contractual arrangements and bringing the factor of risk into operation in deriving a solution. He upset Marshall's conclusion by changing the nature of the problem itself.

In a situation of endemic unemployment or of effective political domination of the countryside by landlords, however, the complete freedom of choice by landless workers or poor peasants postulated by Cheung is illusory. Moreover, admitting riskiness or uncertainty, especially of an uninsurable variety into the picture means that the nice

theorems relating to the Pareto efficiency of a competitive price system can no longer be invoked [Rander 1968].

In an underdeveloped rural area in which peasants are daily faced with the uncertainty of harvests, prices and survival, one 'choice' they are faced with is whether to seek the protection of landowners or not. Such a search regularly leads to the phenomenon of 'casual bondage' or casual clientelism observed all over India and other LDCs [Bagechi 1973, 1976; Breman 1974]. The bondage involves not only the peasant's or labourer's use of his labour, but the use of his assets, and the produce of the land he operates, whether he owns it or he rents it from the landlord. This is the interlinkage of markets so widely discussed in the literature [Bharadwaj 1974; Bhaduri 1984; and Bardhan 1989].

Of course, bondage, usury and landlord domination in India and in most LDC have deep historical roots. The origins of the 'halis' of south Gujarat [Breman 1974], or the 'sevakias' and the 'kamias' of Bihar [Mundle 1979; Prakash 1990] or the 'pariahs' of the Tamil districts [Kumar 1962; Gough 1981; Ramachandran 1990] can be traced back to the pre-British days. But the persistence of bondage in colonial and post-colonial India has to be explained through processes of reproduction and transformation in later times. While the British formally abolished slavery in India in the 1840s, their structure of control over the interior of India was such that the message never got to many of the intended beneficiaries of their legislation. Even if the message got through in some way, given the landlord domination of the countryside, the bonded labourers had no effective means of procuring their freedom.

The abolition of anti-usury laws and customs and the introduction of formal transferability of bundles of rights in land delivered most of the peasants into the clutches of moneylenders generally in alliance (though on occasion in conflict) with the landlords. The process of de-industrialisation, along with some demographic growth, especially in eastern India, rendered the traditional occupations of many members of the rural poor extremely insecure, if not non-existent altogether. When the peasants or landless labourers migrated and were employed in plantations, factories or mines, they exchanged one kind of servitude for another. Those of them (and they were the relatively lucky ones), who had homes and some land to go back to seasonally, were often living between a predial servitude and a rather coercive wage-slavery in the mills or mines (few tea plantation workers were allowed or could afford the luxury of seasonal migration).

The conditions of existence of the landless labourers and poor peasants included

their lack of access to vital areas of information, literacy the formal legal system and a free exchange system. For them, the latter was fraught with the interlinkages of credit, labour, product and asset markets and interlinkages between market and non market power. But as conscious human beings they had to negotiate these conditions with belief systems, information and support networks created by themselves and with strategies of active and passive resistance. In the face of apparently inexorable and uncontrollable forces impinging on their daily lives, they often fell back on inherited belief systems and community relations. Virtually none of the belief systems came without their stigmata of rationalising inequality between men and women, men and men, or women and women. Furthermore, the channels of dissemination of such belief systems were often themselves allied with older structures of exploitation. Many of the controllers of older belief systems successfully made a transition to the status of purveyors of comfort, and communicators of belief systems that were adjusted to the new realities of predatory commercialisation.³

Independence changed the racial character of the ruling class, and some of the worst manifestations of racialism as an ideology of power. Independence also made it possible for the rural magnates to become well-paid brokers of power for town-based lawyers and other professionals in politics. As the rural magnates became familiar with the levers of power running the government in the states and the centre, they themselves aspired to the seats of control and by the middle of the 1960s, in most parts of India, rural magnates participated fully in the government at the centre and in most of the states.

However, in most rural areas of India, landlords and local magnates continued to usurp the monopoly of violence claimed by the modern state. Their methods of control of local resources including land, labour and credit, and government funds spent locally included and continue to include the electoral process, use of administrative and police power, and often private armies of their own. The use of such methods of control often appears to themselves and to the people they control only as an extension of traditional power exercised through caste dominance and caste solidarity, as against other subordinate castes.⁴ When the dominated sections of society organise against landlord-moneylender-rich peasant power, they often do so in the name of caste solidarity or community solidarity. Thus even if caste taboos and community exclusiveness break down at the level of individual social behaviour, they may re-assert themselves at the political level. This congeries of landlordism, neo-traditionalist ideologies and participation in or manipulation of elec-

toral process can be characterised as 'semi-feudal democracy' [Bagchi 1985].

Whenever this complex of dominance—subordination, exploitation—resistance relations is threatened with breakdown through the success of resistance movements rupturing the structure at critical points, the ruling classes resort to more naked methods of repression. We then witness the emergence of the military—bureaucratic state not only in Pakistan, or Brazil or Chile, but also in those regions of a formally democratic country such as India where the elite consensus at the top altogether fails to carry conviction with the common people (this applies to the 'disturbed districts' of Andhra Pradesh as well as to Punjab and Jammu and Kashmir, although in the last case questions of national identity are seriously implicated).

If the exploiters in a semi-feudal democracy are all the time exposed to the temptation of using military-bureaucratic methods, the resisters are also tempted to substitute token egalitarianism or token democracy for real egalitarianism or real democracy in their resistance movements and their struggles for liberation and transformation. Thus a struggle against landlords can turn into a conflict between a caste to which most of the landlords belong and a caste which is supposed to contain only the dispossessed. As the image of the real oppressor becomes blurred, so do the norms of equality, fairness and democracy.

A semi-feudal democracy is sustained by, and in turn leads to a slow rate of economic and social transformation—measured crudely by rates of growth in per capita and industrial incomes, the speed of change of the occupational structure, improvements in rates of literacy and longevity, and speed of elimination of gender bias in incomes, literacy and access to opportunities of gainful employment. Such an environment of slow socio-economic transformation is not conducive to the growth of capitalist classes and productive enterprises which are capable of competing internationally in market sectors for new products, better products or less energy-intensive processes of production. The capitalists or landlords are also likely to find the task of governance at a low cost impossible to accomplish. In addition to their inability to generate enough domestic investment and competitive technology, this would be yet another reason for their dependence on international capital and its coercive and monitoring apparatus.

In an interesting paper, Hayami (1991) has distinguished between an Asian and a Latin American land reform problem. In the former case, it is the contradiction between landlords and poor peasants or share-croppers which is the root of the problem of peasant poverty and peasant unrest. In the Latin American case, it is the contradiction between plantation capital and labourers or

asset—poor farmers with restricted choices of crops and a restricted access to market which assumes the major form. The Philippines case, according to him, combines elements of both. However, it may be argued that the Latin American problem looms ahead of those countries with 'Asian' features which are now exposed to the full blast of TNC power in the wake of the LDC debt crisis. Home-grown landlords will be increasingly replaced by large corporations with international links, and farmers will be increasingly dispossessed. This development is all the more likely if the genetic engineering prowess of TNC is allowed to be used to deprive farmers of their inherited gene pools of seeds of field crops such as rice, wheat, millets, cotton or oil-seeds. Again, contrary to the implied or explicit tenets of new political economy, international, private rent-seeking may prove to be a far more dangerous weapon for the social disintegration of rural areas bedevilled with semi-feudal democracy or military-bureaucratic autocracy than rent-seeking by feebly managed public enterprises.

IV

New Political Economy and Negation of Politics

It is widely recognised now that the new political economy which is affiliated to, if not founded on, neoclassical economics of the Austrian variety on the one hand, and the economic theory of politics on the other, is not only inadequate but very often pretty indefinite in its empirical predictions [Toye 1987, 1992; Hindess 1988]. This predictive emptiness arises first because its specification of individual rationality in a world of uncertainty generated by unpredictable states of nature as well as the strategic behaviour of economic and political agents is much too narrow to be applicable to real world problems. Secondly, the new political economy when it makes a transition to interest group theory of politics is unable to account for the coherence of these groups, if not their constitution in the first place. Olson (1982) theorising about the rise and decline of nations flatly contradicts Olson (1971) who doubts the durability of any large groups pursuing a collective interest. If the earlier Olson is right, how can nations arise and endure in the first place, and how can trade unions which are impotent to bargain for any rise in real wages or any rise in the share of wages in total product, can yet act to thwart the growth objectives of some nations systematically and promote such objectives equally systematically in other cases?

I would argue that all theories which depend on individual utility or profit maximisation and which deny that interdependence of the utilities of different persons

or the interdependence of production possibility sets of different agents is important in any calculus of utility or profit maximisation completely abolish the basis of all politics. It is possible to argue that even in this extreme Hobbesian case, a state has to be there in order to see that the self-centred individuals do not cross the bounds of law, or violate one another's property rights. However, the desirability of a state does not tell us how it can be born in the first place, nor does it tell us what constitution it should have. There is no real agency to bring the state about, to chalk out its functions, nor in fact its limits. Taking the European tradition alone, virtually all the political theorising between the centuries of Machiavelli, Bodin and Hobbes and the present has been negated by the new political economy. Seen in this light, the denial of any legitimacy or efficacy to public enterprises under any conditions is only one aspect of the denial of any politics except in its most primitive and most inchoate form [cf Arrow 1952:46]. Most of the problems of democratic politics, whether egalitarian, interest-group-based, class-based, or even liberal in the old-fashioned sense, remain entirely outside the purview of new political economy. Ultimately, the new political economy proves to be not a rival to old political economy as defined from the heyday of the Scottish enlightenment to the Marxists, Gramscian and Weberian protagonists of the 20th century, but a denial of any real social or political conceptualisation altogether. In this sense, of course, it is a proper bed-mate of much of the ideology of free trade and free-floating finance masquerading as the distilled wisdom of economic theory [Bagchi 1992].

Finally, the proper companion of the new political economy is not really neoclassical economics of the variety that Samuelson had characterised as the 'neoclassical synthesis', but the 'new classical macro-economics', propounded by Robert Lucas, Thomas Sargent and their co-legionaries. Thus, *pace* Robert Wade (1990: 11), achieving macro-economic stability is no part of the radical individualist's social programme. As propounded by the adherents of the new classical economics, government intervention is at best irrelevant, and at worst, mildly pernicious. It cannot be seriously pernicious according to their canon, because that would mean that individuals are not able fully to discount the likely consequences of government interference. According to this view, all business cycles originate in real causes and cannot be smoothed out or altered by monetary and fiscal policies. Thus the IMF-World Bank-sponsored structural adjustment policies cannot really swear by the auras of the new political economy without seriously contradicting themselves. They can, of course, then fall back on interest-

group or elite theory, but then they will have to face the question of how such groups cohere. Positing coherence in the long run will under most plausible conditions will mean that individuals display such 'irrational' attitudes as class solidarity, commitment, altruism, patriotism and do not always behave like 'rational fools', to use Sen's apt phrase [Sen 1977].

The problems of diversion of the social surplus into rents, persistence of social, political and economic processes strengthening 'rent-seeking', and of the dominance of underdeveloped rural areas by landlords, moneylenders, traders and petty bureaucrats, and increasingly, TNCs, using market and non-market power, utilising instruments of class-biased law and violating laws and human rights are real and complex. They cannot be conjured away by ideological lambasting seeking to de-legitimise all public action and all democratic struggles aimed at curbing non-market power and power-blocks illegally usurping the functions of the state. We should try instead to strengthen theories of democratic politics and decentralised planning in regions peopled by desperately poor people, systematically exploited through the use of instruments of overt and hidden coercion. The economics of Ramdhone Sarkar has very little to contribute to such theorising.

Notes

- 1 See, for example, the chapter on rent-seeking in Mueller (1989).
- 2 One can read a pun in the name of Ramdhone Sarkar. 'Sarkar' means government and it was a Mughal title conferred on government functionaries. 'Ramdhone' could mean somebody whose only possession is Ram. Thus the destitute Ramdhone proceeds to aggrandise himself as a government functionary.
- 3 For a convenient summary of the older literature and references, see Bottomore (1964); for a lucid summary of the core of new political economy as applied to LDCs, see Findlay (1991).
- 4 The case of Bolivia is particularly challenging to both the radical social scientists and to the advocates of IMF-style structural adjustment policies. In 1952 Victor Paz Estenssoro became president of Bolivia for the first time as a result of the success of Movimiento Nacional Revolucionario and instituted a system of state capitalism, primarily by nationalising the greater part of the mining industry, and instituting a moderate measure of land reforms. But he continued to encourage foreign capital and the settlement of foreign business communities [Smith 1971: 325-32]. However, in the 1980s the economy was in deep crisis and the average rate of inflation reached 11,858 percent annually in 1985 [Ramirez and Lindenberg 1989]. Estenssoro became president for the third

time in that year, and declared a New Economic Policy, liberalised trade and rolled the state back. Five and a half years later inflation rates were down, but still well above international standards, per capita incomes continued to fall and capital continued to flow out [Klitgaard 1991].

5 For a short analysis of the connection between predatory commercialisation and the incentive for political or violent communalism, see Bagchi (1991b).

6 For an attempt to conceptualise rural power relations along class lines, see Desai (1984).

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Rejected Peoples and Unwanted Migrants in South Asia

Myron Weiner

South Asia has witnessed massive population movements across the national boundaries of India, Pakistan, Bangladesh, Sri Lanka and Nepal since 1947. This paper identifies the various types of population movements across boundaries, the internal social and political response to these flows, the impact of these flows on relations between the states and the ways in which the states have sought to deter unwanted flows when they were unable to control their borders.

THROUGHOUT the world governments are attempting to control their borders so as to limit or prevent the entry of migrants. Open economies, free trade, the easy movement of capital—even those who share this vision of the world want to maintain sovereign boundaries when it comes to matters of immigration. Indeed, most governments cannot conceive of the idea of statehood and sovereignty without notions of citizenship and exclusion, distinctions between those who belong and those who do not. The attempt to erode this distinction among states within the European Community represents one of the great contemporary triumphs but it is not a model for the rest of the world.

South Asia, not Europe, is more often the norm. The countries of south Asia have, in the main, sought to build walls to restrict entry. It is not simply that these governments have an abstract conception of sovereignty that requires that they protect their borders—an attitude they have and share with governments elsewhere in the world. And it is not simply that they fear the economic disruption that often comes with a massive influx—though that too is often their concern. What is most troubling to governments in south Asia is the unwanted ethnic mix that migration brings into communities anxiously seeking to assert their own identity.

In their efforts to follow the historically well-trodden path of state building by controlling borders, the states of south Asia have been faced with two familiar problems. The first is that all of the states grant freedom of exit to their citizens, but none of the states allow freedom of entry. Indeed, some states have forced their citizens to exit for neighbouring countries that do not want them. The second problem is that no state in south Asia is able to control its borders. The unwanted enter, often with frightful political and social consequences for receiving countries.

POPULATION MOVEMENTS IN SOUTH ASIA

Since 1947 population movements across boundaries in south Asia have consisted largely of rejected peoples or unwanted migrants. By rejected peoples I mean citizens or legal residents of a country forced to leave as a result of persecution, violence, or threats to their lives or property and whose

departure is sought by their governments or by those among whom they live. By unwanted migrants I mean people crossing an international boundary, legally or illegally, who are unwelcome and are often asked or forced to leave. It is this feature of population movements in south Asia that has generated conflicts both within and among the countries of the region.

Approximately 35 to 40 million people have moved across national boundaries in India, Pakistan, Bangladesh, Sri Lanka and Nepal since 1947: some as economic migrants, more as refugees. This paper will identify the various types of large-scale population movements across boundaries within south Asia, the internal social and political response to these flows, the impact of these flows on relations between the states, and the ways in which states have sought to deter unwanted flows when they are unable to control their borders. We will attempt to show when and in what ways these flows have been internally politically destabilising and how in turn they have affected security relations among the south Asian states. An examination of these cases thus provides a picture of some of the ways in which international population movements both shape and are shaped by relations among states.

There have been 12 major bilateral flows within south Asia. They can be categorised into three types: rejected peoples, political refugees from repressive regimes, and unwanted migrants.

REJECTED PEOPLES

Governments or dominant ethnic groups may expel from their country ethnic or religious minorities or in other ways make life for minorities so intolerable that for their safety and well being they flee the country. In several instances rejected peoples are lumped upon a neighbouring country in the expectation that they will be accepted because they share the ethnicity of groups within the receiving country. There have been six instances of rejected peoples in south Asia.

Indo-Pakistan Refugee Flows, 1947-48

The largest single bilateral flow in south Asia—and perhaps the largest international flow in world history—took place in 1947

when an estimated six to seven million Muslims moved from India to Pakistan and nearly eight million Hindus and Sikhs moved from Pakistan to India [Census of India 1951 and Phillips 1970]. The flow from Pakistan came from west Pakistan in 1947 and 1948, and from east Pakistan in spurts, extending well into the 50s. These massive flows took place following a British decision to partition India to create the Muslim majority state of Pakistan, consisting of western and eastern wings nearly a thousand miles apart. To create Pakistan, the province of the Punjab with Sikh, Muslim and Hindu populations, was partitioned, as were the multi-religious provinces of Bengal and Assam. Partition meant more than simply drawing a line on a map. It meant the restructuring of populations to enable the Muslims of India to have a state of their own which would include not only those who lived in the Muslim majority provinces, but also those minorities in Uttar Pradesh, Bihar, Punjab and other parts of northern India who wished to migrate. Similarly, the government of India accepted the notion that neither Sikhs nor most Hindus in west Pakistan would want to remain there.

In the initial discussions to create a Pakistan state no explicit consideration was given to the question of population movement. It was assumed that there would be a rearrangement of personnel within the military, the police and the administration but not a rearrangement of populations on the ground. The massive refugee flow of 1947-48 might be more benignly described as the population exchange that took place under violent conditions. Violence was especially acute in the Punjab where armed conflict erupted between Sikhs/Hindus and Muslims. On each side of the border ethnic groups massacred one another and seized property in an effort to create ethnically more homogeneous regions. When the massacres ended—some have put the death toll as high as half a million—and the population flows subsided, Pakistan's Punjab and Sind provinces were almost entirely Muslim, while India's Punjab was almost entirely Hindu and Sikh.

Pakistan initially had a Law of Return since its newly written citizenship law granted citizenship to all Indian Muslims who chose to move to Pakistan and even welcomed the influx of 'muhajirs' (refugees). Similarly, India accepted Hindus and

Sikhs who did not wish to live in Pakistan. Though the two governments did not press their religious minorities to leave, neither government used its military nor police to halt the carnage that led to the exodus. There was a breakdown in political authority as the police, army, and political leadership, largely bystanders to a process they could not control, were unable to stop the communal killings or to manage the population flight.

What is noteworthy about those flows from an international relations perspective is that they did not result in armed conflict between the two new countries. The killings were not the result of a war between governments, but rather a war among peoples. War subsequently broke out between India and Pakistan, but not as a consequence of the massacres and the migration, but rather over the disputed territory of Kashmir.

Neither country expected the refugees to return home and each with varying degrees of success resettled its refugees. Since there had been a *de facto* exchange of both people and immovable property (in the west, though not in the east) refugees were often resettled on property left by those who fled. In spite of poverty, lack of governmental resources, and the uninvolved of foreign agencies, the two countries disbanded the refugee camps and absorbed their migrants. The migrants, a rejected people at home, were not unwanted by the countries into which they settled.

Exodus of Burmese Indians

A similar flow, also associated with the creation of an independent state, took place from Burma to India. In the early part of the century when Burma was part of British India, substantial numbers of Indians settled in Burma. Many were moneylending chettyars from Madras who provided rural credit and were landowners. Some entered the professions or government service [Chakravarti 1971; Colin 1990; Singh 1984 and Tinker 1977]. The centre of Rangoon was virtually an Indian city. Indians—there were an estimated 9,00,000 in Burma before the war, had their own political parties and separate representation in the legislative assembly. Many Indians sought to keep Burma as a province of India, and clashes between Indians and Burmese occurred in 1938. But a significant exodus did not take place until the Japanese occupation, when several hundred thousand Indians fled to India.

After Burma became independent in 1948 the new government moved quickly to Burmanise the public service. Indian employees in government service were told to leave, Burmese was made the official language, and only a few Indians were granted Burmese citizenship. In 1948 and 1949 a majority of the Indians left. Political relations between Burma and India were strained, but no armed conflict took place. Still another major exodus of Indians took place in the mid-60s when the Burmese government

nationalised trade, industry, banking, and commerce, thereby depriving Indian middlemen of their property and income. At this time an estimated 1,50,000 Indians, mostly of south Indian origin, 'returned' from Burma to Madras.

Exodus of Sri Lankan Indians and Sri Lankan Tamils

The process of clearing immigrant populations out of the country also took place in post-independence Sri Lanka. As in Burma, Sri Lanka (then Ceylon) had a large Indian population, though the Sri Lankan Indians were plantation workers, not in trade, finance, the professions or government service as in Burma [Chattopadhyaya 1979; Colin 1990; de Silva 1986; Fries 1984; Singh 1984 and Tinker 1977]. The estate workers were predominantly Tamil speakers from south India, recruited by the British in the 19th century to work in the tea plantations in the Kandyan highlands.

Sri Lanka has two distinct Tamil populations: the Sri Lankan Tamils who migrated to the northern and north-eastern parts of Sri Lanka in the 10th century, constituting 11 per cent of the population, and the Sri Lankan Indians, estate labourers who in 1971 numbered 1,175,000 people or 9.3 per cent of the population. The Sri Lankan Sinhalese regarded the Indians (but not the Sri Lankan Tamils) as unwelcome migrants who should return home. The Kandyan Sinhalese displaced by the British planters who created the plantations, regarded the estate labourers and the estate themselves as an intrusion. Sinhalese political leaders opposed granting voting rights to the estate workers as recommended by the British Donoughmore Commission, a constitutional reform commission appointed by the British in 1928 which recommended that the franchise be given to anyone who had resided in Sri Lanka for at least five years.

The British were of the view that the Indians had merely taken jobs that the Sinhalese did not want, that they contributed to the development of the economy, and that they represented no threat to the culture or political position of the Sinhalese, views rejected by Sinhalese political leaders. The Sinhalese regarded the British policy of admitting Indians as illegitimate. In their view the independent government of Sri Lanka had every right to seek the removal of the entire Indian population.

When Sri Lanka became independent there was no clear notion as to what constituted Sri Lankan citizenship. In the 1949 elections anyone who was a British subject in Sri Lanka, including Indian estate labourers, could vote. But the new government lost no time in introducing the Ceylon Citizenship Act of 1948 and the Indian and Pakistani Residents (Citizenship) Act of 1949. These acts, along with various agreements subsequently signed with the Indian government in 1964 and 1974, added up to a set of policies to end all further migration into Sri Lanka, to expatriate as many of the Indian

estate workers as India would accept, and to remove the franchise and citizenship from the estate workers. The new citizenship laws defined Sri Lanka citizenship: to be a Sri Lankan citizen your father or both you and your grandfather must have been born in Sri Lanka. Though estate workers had been in Sri Lanka for generations, it had been common for many estate workers to go to Tamil Nadu to get married and for their children to be born there. The Citizenship Act disenfranchised 95 per cent of the estate workers who, said the government, had been British, not Sri Lankan citizens.

The Sri Lankan government was hardly alone in wanting the expatriation of migrants who had entered when the country was under colonial rule. Many post-colonial regimes regarded their migrants as an illegitimate presence if the migrants did not belong to the dominant indigenous ethnic community. Uganda and Burma expelled their Indian and Pakistani settlers and in Indonesia large numbers of Chinese were massacred or expelled. Sri Lanka, however, had a democratic government. It sought to remove the Indians through legitimate means, in accordance with law and with due regard for its international obligations. However one may fault successive Sri Lankan governments for their policies of seeking to expatriate the Indian community, one should note that the Sri Lankan government at no point engaged in the forcible expulsion or killing of estate workers. Its repatriation policies were constrained by whatever agreements were reached with India.

In 1954 India and Sri Lanka signed an agreement (the Nehru-Kotlaewala Pact) which provided that the Indian government would accept Indian Tamils who wished to become citizens of India, but the Indian government rejected the Sri Lankan government's position that those who did not qualify for Sri Lankan citizenship should automatically be given Indian citizenship. The agreement, read in conjunction with the Ceylon Citizenship Act of 1949, created a category of stateless people, approximately 9,00,000, who were rejected by both the Indian and Sri Lankan governments. Under a subsequent treaty, the Indo-Ceylon Agreement of 1964 (the Sirimavo-Shastri Pact), India agreed to take, 5,25,000 Sri Lankan Indians, while Sri Lanka in turn agreed to grant citizenship to 3,00,000. A subsequent agreement between prime ministers Bandaranaike and Indira Gandhi in 1974 increased India's share to 6,00,000 and Sri Lanka's to 3,75,000. The agreement also provided for a phased granting of citizenship by Sri Lanka as the repatriation took place.

The government of Sri Lanka was eager to see the repatriation of the estate workers for two political reasons. The first was their anxiety that the Sri Lankan Indians might form a political alliance with the Sri Lankan Tamils. As political conflicts grew after 1956 between the Sri Lankan Tamils and the Sinhalese community, Sinhalese political leaders were concerned that the Sri Lankan

Indians and the Sri Lankan Tamils might join in common cause. Fortunately for the Sinhalese, the older Tamil community looked down upon the estate workers (most of whom were from the lower castes) and stood aside as the Sinhalese pressed for their disenfranchisement and repatriation. The second concern of the Sri Lankan government was that if the country retained a large number of Indian citizens the Indian government could justify its involvement in Sri Lanka's internal political affairs on the grounds that it was protecting its own citizens. Thus, in a fundamental sense, Sri Lanka's internal political stability and its security were shaped by the Sri Lankan Indian issue. To bring about a legal resolution of the problem, the Sri Lankan government in 1986 introduced a new act, the 'Grant of Citizenship to Stateless Citizens Act' which dealt with the remaining stateless Indians.

A second problem arose in Sri Lanka between Sri Lanka's indigenous Tamil community (12.6 per cent of the population) and the dominant Sinhalese. In the early 1970s the government of Sri Lanka introduced an affirmative action programme to provide education and employment preferences to the Sinhalese, an effort to compensate for the superior educational status and economic position of the Sri Lankan Tamils. Tamil leaders fought these measures, then pressed for autonomy for the Tamil majority region in the north [Manor 1984; de Silva 1986 and Tambia 1986]. In 1983 Sinhalese militants launched a pogrom against Tamils in Colombo, forcing Tamils to flee northward. The result was a strengthening of Tamil militants who launched insurrectionary attacks against government forces. By the mid-1980s Sri Lanka was engaged in a civil conflict, with an armed struggle against Tamil militants advocating an independent state, an internal refugee movement, a flight of Tamils from Sri Lanka to India (and some to Europe), the establishment of secret military training camps in the south Indian state of Tamil Nadu, and the illegal transfer of arms from India to Sri Lanka. By 1986 1,25,000 Tamil refugees had moved to India, and another 75,000 to Europe, Canada, the US and Australia.

In the late 1980s India took an increasingly interventionist position, providing support to the Tamil militants while offering to serve as a mediator. As Sri Lankan troops fought in the north, often killing civilians, the Indian government airlifted relief supplies to the Tamils. India continued to press for a political settlement granting regional autonomy to the Tamils. Prime minister Rajiv Gandhi and Sri Lankan president Jayawardene signed an agreement providing for a political settlement to be enforced by an Indian expeditionary force to suppress the Tamil militants who had ironically been trained in secret camps in Tamil Nadu. With the election of Premadasa as the new president of Sri Lanka, an agreement was reached that the Indian military would

withdraw its forces. India withdrew and by early 1991 the Sri Lankan military had badly mauled the Tamil Tigers in the north, though they continued their terrorist attacks. In March 1991 the Tigers successfully assassinated Colombo's defence minister with a massive bomb planted under a road. The Tigers also continued to function within Tamil Nadu where, according to press reports, they received secret support from the Tamil Nadu government.

On May 21, 1991, in the midst of India's parliamentary elections Rajiv Gandhi was assassinated by a suicide bomber when he was campaigning in Tamil Nadu. Indian intelligence concluded that the Sri Lankan Tamil militants embittered by Rajiv Gandhi's attempts to suppress them, had arranged the assassination. With the assassination of Rajiv Gandhi the issue of foreign terrorists on Indian soil, posing threats to Indian citizens and prominent Indian public figures, became a matter of central concern within the government. A report of the ministry of external affairs in August 1991 stated that the conflict between the LTTE and the Sri Lankan armed forces had caused an influx of 1,22,972 refugees into Tamil Nadu.

Bangladesh and the 'Stranded Pakistanis'

When Bangladesh became independent in 1972 one of the first issues facing the new government was how to arrange the 'return' to Pakistan of an estimated half million people who regarded themselves and who were regarded by Bangladeshis as Pakistanis, stranded so to speak, in a foreign country [Whitaker 1982]. What made this situation unusual is that these 'stranded' Pakistanis, had, in fact, never been to west Pakistan. Indeed, more than half of the stranded Pakistanis, those under the age of 25, had been born in what was now Bangladesh while the remainder were migrants who originated from India. These migrants, popularly called Biharis, were Urdu-speakers who held a variety of skilled and semi-skilled jobs in east Pakistan as mechanics, artisans, shopkeepers, and labourers in the jute industry and in the railways. In east Pakistan's predominantly Bengali society the Biharis stood socially and politically apart. As Urdu speakers they had an advantage over Bengalis in managerial positions that required knowledge of Pakistan's official national language. There were all-Bihari settlements in Dhaka, Chittagong, Kulna, and other large towns. When the Pakistan government sent in armed forces to crush the movement for an independent Bangladesh, many Biharis supported the Pakistan military and joined the central government's paramilitary forces. In the immediate aftermath of independence, Bangladeshis took action against collaborators, and in several towns Biharis were forced out of their homes or massacred. With the help of the Red Cross and the UNHCR refugee camps were built. The Bangladesh government declared that the Biharis were not Bangladeshis, but Paki-

stanis who should be returned to their home country. The Biharis also regarded themselves as Pakistanis. Under a Tripartite Agreement in 1974 the Pakistan government agreed that all persons employed in Pakistani government service in east Pakistan (but not including the railways) could be repatriated to Pakistan. Approximately 1,70,000 Biharis were resettled in Pakistan. Another 3,00,000 were left in Bangladesh as of the late 1970s [Whitaker 1982]. As far as the government of Pakistan was concerned, its legal obligation to Biharis was fulfilled by the tripartite agreement and the government had no obligation to admit and grant citizenship to those who did not belong to any of the categories incorporated into the agreement. There were political reasons why the Biharis were unwanted by Pakistan. A large proportion of the Urdu speaking migrants who settled in Pakistan after 1947 (known as 'muhajirs') settled in the province of Sindh, many in Karachi. Violent clashes between Sindhis and muhajirs made the government fearful of admitting Biharis who were also likely to settle in Karachi. The Pakistan government offered to repatriate the Biharis if international funding was found to settle them in the Punjab, and for a while it appeared that some support might be provided by the Saudis. But fearful of the destabilising effects within Sindh of admitting Biharis (a problem further intensified in the late 1980s when there were violent clashes between muhajirs' and Sindhis), the government of Pakistan was unwilling to take action [Report of the Special Committee of the Senate 1989]. In 1991 the government of Pakistan reopened the question of repatriating the stranded Pakistanis. The reopening of the question was largely the result of a newly formed alliance between prime minister Nawaz Sharif's party and the MQM, a political party formed by muhajirs living in the Sindh. The reaction among Sindhis was harsh, many of their leaders declaring that the government was seeking to bring in Biharis in an effort to turn the Sindhis into a minority in their own province. Prominent Sindhis condemned the decision and warned of 'devastating' consequences in the ethnically explosive atmosphere of the province if Biharis were repatriated.

Flight of Burmese Muslims to Bangladesh

In early 1978 an estimated 2,00,000 Muslims crossed the Burmese border into Bangladesh. The flight occurred after the Burmese army swept through the Arakan region (to the south of Bangladesh, below the Chittagong hill tracts) in an effort to end a local insurgency which had arisen when the Burmese government launched a movement to check on 'illegal immigrants'.

The Muslims, known as Rohingya, were bilingual Bengali and Burmese speakers, descendants of agricultural labourers who had migrated to the Arakan region from Bengal in the 19th century when borders were not clearly demarcated or regulated. A

few were descendants of Arab settlers who first went to Chittagong for trade, then moved on to Burma; they could read Arabic, but not Bengali. By the mid-1970s the Muslim population of Arakan was 1.1 million.

In early 1978 the government of Burma launched an operation to check on the nationality of residents in the region. The Burmese distinguished between 'nationals' or Burmese citizens who possessed national registration certificates, and those who possessed foreign registration certificates. That left in limbo those who had lived in Burma for generations but lacked certificates. The Burmese claimed that many of these people had recently migrated to Burma and to prove otherwise they had to produce rent receipts, land sales or purchase deeds, or be identified by Burmese citizens. As the army began their check, many of the unregistered Muslims fled to Bangladesh where they were placed in refugee camps assisted by the Red Cross and by the United Nations High Commission for Refugees.

The Burmese actions should be seen in the context of (a) a history of Burman hostility to Indian traders, merchants, moneylenders, and landowners, (b) an intensification of land disputes between Burmans (some of whom were new migrants to the region) and Bengali-speaking Muslims in a country with a rising population and a stagnant economy, and (c) insurgencies against the central government in the Arakan region and elsewhere in the country.

Bangladesh protested to Burma. Rumours abounded that Bangladesh was providing the Rohingya with small arms from Saudi Arabia to defend themselves against the Burmese military. Bangladeshi officials, with the mediation of the United Nations High Commissioner, negotiated an agreement with the government of Burma which stipulated that those who had entered Burma before 1948 (and their locally born children) who had failed to register could now do so and would be permitted to own land and property. With the signing of the agreement the exodus ceased and many of the Rohingya returned to Burma. Conflict between the Rohingya and the Burmese resumed in 1989 when the Burmese government confiscated land to establish a military base, and then conscripted Rohingyas as unpaid labourers. Thousands of Burmese troops were moved to Arakan to deter several hundred armed Rohingyas living in camps on the Bangladesh side of the border. But many observers regarded the government's policy as intended to win popular support among Burmese who were fearful of a movement of people from densely populated Bangladesh into the sparsely populated rich rice lands of Arakan. Whatever the explanation, the result was a positioning of both Burmese and Bangladeshi troops on the borders, and once again the flight of Burmese Muslims into Bangladesh.

The government of Burma (or, as it now calls itself Myanmar) and Bangladesh signed an agreement in April 1992 for the 'safe and

voluntary return of refugees, following assurances from the government of Myanmar that it would take steps to halt the exodus of Burmese Muslims. According to Bangladesh officials by January 1993 there were a total of 2,43,000 refugees in camps (*Far Eastern Economic Review*, January 28, 1993). Bangladesh pursued a dual policy, one of seeking to put pressure on the government of Burma to settle with the Rohingyas, and the other to put pressure on the Rohingyas in Burma to repatriate. Under the agreement the services UNHCR could be called upon to monitor the repatriation. Conflicts soon arose between the Bangladesh government and the UNHCR over what it regarded as a policy of coercing Rohingya refugees to return to Burma. Amnesty International was critical of the Myanmar government for its persistent violations of the rights of the Muslims and its unwillingness to accept UNHCR monitoring, and of the Bangladesh government for its forceful repatriations.

Of particular note is the financial support of overseas Burmese Muslims (tens of thousands, it is reported in Saudi Arabia) for two Arakan rebel groups—the moderate Arakan Rohingya Islamic Front (ARIF) and the better armed Islamic Rohingya Solidarity Organisation (RSO), both operating in camps within Bangladesh. RSO rebels are reportedly supported by Jami'at-i Islami in Bangladesh and Pakistan and trained by the Afghan mujaheddin organisation, Hizbe-Islam. According to one estimate there are as many as 2,00,000 Rohingyas in Saudi Arabia (*Far Eastern Economic Review*, January 28, 1993), a similar number in Pakistan, and thousands more in the United Arab Emirates, Jordan and Qatar. As the links grow between the Rohingya refugees and the middle east governments, Burma's treatment of its own Muslim population seems likely to become an increasingly important international issue, one that goes beyond Bangladesh-Burmese relations.

Flight of Chakmas from Bangladesh to India

The Chakmas are an indigenous tribal community in the Chittagong Hill Tracts of Bangladesh. Numbering 3,50,000, they are the largest of 13 hill tribes that inhabit this district in the southern part of Bangladesh bordering on Burma and the Indian states of Tripura and Mizoram. [Ahsan 1989; Anti-Slavery Society 1984 and Montu 1980]. The tribals differ from Bengalis in three respects: they are of Sino-Tibetan descent; their languages are more akin to those spoken by their neighbours in north-east India and Burma than to Bengali; and they are predominantly Buddhist. Under the British the Chittagong Hill Tracts was an 'excluded area'; non-tribals were restricted from settling in the district and tribals were given limited self-government. In 1964 the government of Pakistan ended the special status of the Chittagong Hill Tracts, opening the area to Bengalis. In the 1971 civil war some Chakmas were recruited by the Pakistan

army and were subsequently regarded as collaborators by the Bangladesh government. The newly formed Bangladesh government allocated funds to thousands of Bengali families to settle in the tracts, arguing that the area was less crowded than the rest of densely populated Bangladesh. By 1981 Bengali migrants constituted a third of the population of the tracts and plans were under way to settle another quarter of a million Bengalis.

The Chakmas formed the Chittagong Hill Tracts Peoples Solidarity Association (PCJSS) which called for regional autonomy, the restitution of all lands taken by Bengali immigrants since 1970, and a ban on further immigration. As in Assam, Manipur, Tripura and Bhutan, areas settled by large scale immigration from Nepal, Bangladesh and West Bengal, the Chittagong tribes people feared that if migration continued they would become a minority in their own land. When Bangladesh rejected their demand for regional autonomy, the Chakmas launched an armed insurgency. Bangladesh claimed that the Chakmas were armed and trained by the Indian military. After a Bangladesh army patrol was attacked by Shanti Bahini forces (the armed wing of the PCJSS), Bangladeshi troops and armed Bengali immigrants reportedly retaliated by attacking unarmed Chakma villagers. Many Chakmas fled across the border to the Indian states of Tripura and Mizoram. By the end of 1981 India reported that there were 40,000 refugees from the tracts living in Indian border states.

The insurgency continues. Some 3,000 rebels, Bangladesh soldiers, and civilians have died in the 18 year-old insurgency. The Chakmas call for expulsion of the estimated 3,00,000 Bengali speaking settlers in the Chittagong Hill Tracts, and thousands of refugees continue to live in north-east India.

POLITICAL REFUGEES FROM REPRESSIVE REGIMES

Flight of Bangladeshis to India

In early 1971 an armed struggle erupted in Pakistan between East Pakistan and the Pakistan military. The civil war came after years of conflict between East Pakistan and the central government over the issue of regional autonomy and military rule. The Awami League of East Pakistan won a majority of seats in the elections for Pakistan's National Assembly in February 1971. The League called for a national federation in which the federal government would be responsible only for defence and foreign affairs and with the federating units maintaining their own militia, currencies, revenue, and control over foreign trade. Following a period of intense unsuccessful negotiations [Sisson 1990] a military crackdown in East Pakistan began on the night of March 25, 1971. Awami League leaders were arrested and fighting broke out between the Pakistan army and Bengali units known as the Mukhti Bahini. As the Pakistan army moved in, Bengali Hindus in border districts fled to India. By mid-July

nearly seven million Bengalis had crossed the border into West Bengal, Tripura, and Assam to refugee camps built and sustained by the Indian government.

The Indian government trained and armed Mukhti Bahini insurgents and sought to mobilise international support for the Bangladeshis, warning that the crisis had to be resolved and the flow of refugees to India halted. Prime minister Indira Gandhi warned that "Pakistan cannot be allowed to seek a solution of its political or other problems at the expense of India and on Indian soil". Mrs Gandhi and other Indian leaders were persuaded that Pakistan sought to reduce East Pakistan's population to a minority within Pakistan (in 1971 they constituted 53 per cent of the country) by forcing Bengali Hindus to move to India. New Delhi argued that by forcing millions of refugees into India from Pakistan was committing indirect aggression.

By September 1971 the refugees numbered eight million. The Indian government was alarmed at the likely political consequences of refugee settlement in Assam and in the north-east tribal hill states where there were already conflicts between the indigenous populations and Bengalis. India's leaders were persuaded that only armed intervention could liberate Bangladesh and enable the refugees to return home. In November Indian forces moved into East Pakistan. China, the US, Muslim countries, all the other states of South Asia and most other members of the non-aligned movement opposed Indian intervention and called for a cease fire, but the Indian army continued the war. On December 16, the Pakistan military surrendered. The Indian government said that in all, nine million refugees, mostly but not entirely Hindus, had entered India. The Indian government moved quickly to repatriate the refugees and within months the bulk of the refugees had returned to their homes. India had several reasons for waging war, but none was more central than the refugee problem.

Flight of Afghans to Pakistan

In April 1978 a communist-led army coup overthrew the government of Afghanistan. In the months that followed, opponents of the regime (mujaheddin, or freedom fighters) launched an armed struggle against the government. In December 1979 Soviet armed forces entered Afghanistan, replaced one faction of the communist (PDPA) government with another, and launched a counter-insurgency warfare against the mujaheddin. The Soviet invasion, the first such movement of Soviet forces outside of eastern Europe, disrupted US-Soviet relations and alarmed Pakistan, China, Iran, and countries in the Persian Gulf; Saudi Arabia, China, and the US responded by providing arms to the Afghan mujaheddin. By the mid-1980s 1,50,000 to 2,00,000 Afghans were under arms [US Department of State 1987].

As the war within Afghanistan intensified ever larger numbers of Afghans fled the

country. An estimated three million refugees entered Pakistan and another one-and-a-half to two million fled to Iran. In Pakistan the refugees were housed in camps managed by the Pakistan government. The refugees were given identity cards and rations if they remained in the camps, but were free to leave to seek employment elsewhere in Pakistan. Pakistanis were remarkably supportive of the refugees in spite of the high financial costs and the dislocations that occurred in the border regions, including deforestation caused by grazing Afghan sheep and goats.

By the late 1980s, however, there was a growing concern over the impact of the Afghans on Pakistan. Arms intended for the mujaheddin entered the Pakistan arms market and were purchased by ethnic groups in conflict with one another. This 'Kalashnikov culture' turned ethnic disputes between Sindhis and 'muhajirs' in Karachi into armed street struggles. Afghans in Peshawar, Karachi, Hyderabad and other cities were armed, a visible reminder to Pakistanis of their threat to the country's internal stability and security. Moreover, several of the mujaheddin organisations were closely tied to Jamiat-i-Islami, one of the country's major political parties. The mujaheddin also developed a lucrative drug trade, growing poppy in Afghanistan, processing heroin in laboratories along the Pakistan border, and then transporting the heroin to Karachi for shipment to western markets. The trade involved collusion with Pakistani politicians, bureaucrats and the military.

Critics argued that the Pakistan government had developed a vested interest in sustaining the mujaheddin in their war against Kabul. The conflict assured the Pakistan government of a flow of direct economic and military assistance, indirect aid as the government siphoned off some of the military supplies intended for the mujaheddin, and the financial benefits of the drug traffic. Jamiat benefited from its political and financial ties to the fundamentalists among the mujaheddin, especially Hezb-i-Islami led by Gulbuddin Hekmatyar. Inter-Service Intelligence (ISI), the intelligence branch of the Pakistan military, played a key role in supporting Afghan fundamentalists. Within the Pakistan government and among the country's policy leaders there were differences over what would be an acceptable political outcome in Afghanistan, differences in large measure based upon how one assessed the costs and benefits for various groups within Pakistan.

President Zia's death in a still unsolved plane crash opened the doors to elections in Pakistan which resulted in the victory of Benazir Bhutto and her Pakistan People's Party. Though critical of Pakistan's support for the mujaheddin, the government continued to provide support rather than risk a confrontation with the Pakistan military. By 1991, however, Pakistan support for the mujaheddin wavered, partly because of growing disillusionment by the US and a

decline in support by donors for the refugees and for the mujaheddin, and partly because the Pakistan government was eager to see a settlement that would be acceptable to the newly independent states of central Asia. The Kabul government fell in April 1992 and was replaced by an interim government made up of a coalition of mujaheddin political parties. In the late spring significant numbers of refugees began to return home and by early 1993 it is estimated that about 1.5 million refugees had returned home.

The war, however, continues, now among sections of the former mujaheddin. Unable to settle long-standing internal differences, two groups of mujaheddin contended for control over Kabul, the Hezb-i-Islami led by Gulbuddin Hekmatyar and Jamiat-i-Islami led by Nurhanuddin Rabbani and Ahmad Shah Masoud. An alliance of Jamiat, a predominantly Tajik party based in the north and one of Najibullah's Uzbek commanders, brought down the communist regime. Hekmatyar's party is strongest in the predominantly Pushtun-speaking areas in the south and eastern regions of Afghanistan. The struggle between these two groups has thus taken on an ethnic/regional dimension. Shelling continues in and around Kabul, though less so in some portions of the country, especially in the northern regions.

With the breakup of the Soviet Union and the emergence of independent central Asian states, a neo-geo political dynamics has developed in the entire region that seems likely to shape not only inter-state relations but also relations among the various ethnic groups that spill across the borders, both between Pakistan and Afghanistan, and now between Afghanistan and the new states of Turkmenistan, Tajikistan and Uzbekistan. In 1992 civil war within Tajikistan between Islamic-oriented Tajik nationalists and former communists led to an outpouring of a reported 80,000 Tajik refugees into the Tajik populated regions of northern Afghanistan.

Flight of Tibetans to India

By south Asian standards the number of Tibetans who fled from China to India in the 1950s was relatively small—less than a hundred thousand—but the protest movement and insurrection that led the Chinese army to crush the rebellion proved to have long-term implications for Indian-Chinese relations. Though some Indian politicians were fearful for Indian security and were sympathetic to Tibet's insistence upon its independence, the Indian government did not object to China's decision to annex Tibet in 1950. Nor did the Indian government support the Tibetan uprising in 1959, though for humanitarian reasons India provided safe haven to the Tibet refugees, including the Dalai Lama.

India neither armed the refugees nor supported independence or autonomy for Tibet, but the presence of the Dalai Lama continued to be a thorn in Indian-Chinese relations. Moreover, the Tibetan insurrection proved to be a turning point in relations

between India and China, for China, concerned with its security in Tibet, built a road through the disputed area of Aksai Chin in Ladakh, linking Sinkiang province to Tibet. In 1962, after Indian troops moved in toward the disputed areas in Ladakh and in the North-East Frontier Agency, the Chinese retaliated with massive force and defeated the Indian army.

Thrust within Tibet has remained high in large measure because of the Chinese government's policy of colonising what were previously Tibetan-majority regions. Qinghai Province, the birthplace of the Dalai Lama, and one in which Tibetans formed the largest group as late as 1950, is now 58 per cent Han Chinese, 20 per cent Tibetan and 22 per cent Hui and other minorities, in a total population of 4.5 million (*New York Times*, September 9, 1991). Substantial numbers of Han Chinese have also been moved by the government into the autonomous province of Tibet. Occasional confrontations between Chinese authorities and Tibetans in Xinghai, and more frequent confrontations in Lhasa have resulted in a small but continuous trickle of dissidents from China into India.

UNWANTED MIGRANTS

Bengalis to Assam

Toward the end of the 19th century East Bengalis began to migrate to Assam in search of land or employment as agricultural labourers. This flow continued even after partition, when an international boundary separated Indian Assam from East Pakistan. Within Assam the population grew 2.7 million more than the natural population increase between 1961 and 1981. There is considerable evidence that the 'excessive' population growth was the result of illegal migration from Bangladesh.

The Indian government regarded those who came from Pakistan between 1947 and 1951 as refugees on whom citizenship would automatically be bestowed. Officially, all migration from Pakistan after 1951 was illegal, but the government took no steps to deport new entrants, and unofficially took the view that Bengali Hindus were legitimate refugees. Those who came in 1971 were regarded as victims of the Pakistan government, to be repatriated when Bangladesh became independent. Most did return, but some stayed on in Assam, and still others illegally migrated into Assam after the war ended. The flow now was not of refugees but, as earlier, of migrant seeking land and employment.

The Assamese were alarmed at the influx. Indeed, ever since the migration of Bengalis into Assam began, the Assamese have been fearful that they would be outnumbered, and the state would fall under the cultural and political hegemony of the Bengalis. Middle class Assamese Hindus waged a struggle for political control over the state which they won after 1947. The Assamese then asserted their political and cultural hegemony.

Assamese was declared the official state language and Assamese were given job preferences for state employment. Anti-Bengali riots in 1972 led some Bengali Hindus to flee to West Bengal [Weiner 1987].

The conflict became more acute in 1979 when the Election Commission reported an unexpectedly large increase in the number of people on the electoral rolls. The Assamese concluded that the increase reflected a rise in the illegal migration of Bengali-speaking Muslims from Bangladesh, and demanded that the electoral rolls be purged, and illegals be repatriated. Three conflicts then ensued: (1) within Assam itself as many Bengali-speaking Muslims who were citizens of India feared that expunging illegals from the electoral rolls would result in their exclusion; (2) between Assamese Hindus and the central government, which argued that the number of illegals was exaggerated and that in any event no one should be expelled from the country and (3) between the Indian government and the government of Bangladesh, which insisted that there were no illegal migrants and that the population increase was the result of migration from other parts of India.

The All Assam Students Unions (AASU) demanded that the central government cancel the 1980 parliamentary elections in the state in order to eliminate illegals from the electoral rolls and that all who entered after 1961 be disenfranchised and deported [Mahanta 1986]. In 1983 the government decided to hold state assembly elections over the objections of the AASU and other Assamese organisations. The result was some of the worst ethnic violence in post independence India as 3,000 Bengali Muslims were killed. India's foreign minister, Narasimha Rao, announced that a fence would be constructed to stop infiltration from Bangladesh to Assam, a road would be built to enable border security forces to improve their patrols and watch-towers would be located at strategic points. The government of Bangladesh viewed the fence as a violation of an Indo-Bangladesh agreement that no defensive structures would be built along the borders, and when construction began armed clashes occurred. Officials from the border security forces of the two countries met, with officers present from the ministries of external affairs of the two countries to reduce border tensions, but Bangladeshi officials remained adamant in denying that any illegal migration occurred [Khan 1984]. India sought to force Bangladesh to tighten its border security forces and to warn would-be migrants that it would be risky to cross the borders. From the point of view of the government of India tension along the borders was desirable, way both of discouraging illegal migration and of politically reassuring the Assamese.

In August 1985, an accord was signed between the government of India and the leaders of the Assamese movement which provided for the elimination from the electoral rolls of those who came from

Bangladesh after 1966. The election commission struck off 6,89,000 names from the electoral rolls and elections for the state assembly were held in December 1985. The Asom Gana Parishad (AGP), a new political party formed by anti-migrant student leaders, defeated the governing Congress party.

The government of India put aside the construction of the fence, but increased the number of border check points and improved the roads near the border. Though some screening of Assamese residents was conducted by the state government, no deportations took place. The Indian government was concerned that deportations would lead to conflict with Bangladesh and antagonise Muslims within Assam (24 per cent of the population) and in the rest of India at a time when Muslim support for the governing Congress party had already declined.

The issue continues to fester. In the late 1980s militant Assamese youth were attacking the Asom Gana Parishad state government as well as the central government, and they no longer limited their demand to the expulsion of Bangladeshis but called for the secession of Assam from India so that Assam could control its own borders, expel any or all non-Assamese, and control the 'export' of the state's oil, wood, and tea.

Open Borders: Nepal and India

The 1950 Treaty of Peace and Friendship between Nepal and India provided that the two governments "agree to grant, on a reciprocal basis, to the nationals of one country in the territories of the other the same privileges in the matter of residence, ownership and property, participation in trade and commerce, movement and other privileges of a similar nature". The treaty established open borders for the movement of people and of goods. Nepal and India are the only countries in South Asia that permit the free circulation of people across national boundaries.

For Nepal this appeared to be a good arrangement. The flow of migrants was substantially greater from Nepal to India than from India to Nepal. Gurkhas served in the Indian army and in the paramilitary forces, then retired to Nepal where they earned lifetime pensions from India. Nepalis also found employment as watchmen in Calcutta, in the tea plantations of Darjeeling, and Assam, and as milk herders in Assam.

But as Indians increasingly migrated into Nepal, there was increasing disquiet among Nepali officials. The Nepali government took steps to impose restrictions on Indian migrants. The Land Reform Act of 1964 prohibited the sale or transfer of land to any foreigner without prior approval of the government of Nepal; government employment was restricted to Nepali citizens; and the employment of non-citizen Indians in the private sector was controlled. In 1975 a citizen registration system was introduced. Lists were prepared of citizens by districts and certificates of citizenship were issued

containing the individual's thumb print or photo. By 1980 the citizenship act was replaced with a new law which provided citizenship only to those whose fathers were Nepali citizens.

Whether Indian migration was good or bad for Nepal was an issue that divided Nepalis. Critics said that Indians displaced local people in the labour market and that 'Indianisation' eroded popular commitment to Nepal as a sovereign state and to Nepali culture. They feared that many Nepalis felt a strong cultural affinity to India, and were economically seduced by close economic ties with India. Others argued that Indian traders, shopkeepers, businessmen, construction workers and artisans contributed to the growth of the Nepali economy.

The higher population growth of the terai compared with the rest of Nepal was seen as a threat to those who resided in the hills and exercised power in Kathmandu. Hill leaders were concerned that the demographic shift—in part the result of migration from India—would be accompanied by a growing demand for a shift in political power. Nepal had a panchayat system of government, with indirect elections, no political parties, and a concentration of power in the hands of the monarchy, his entourage, and the bureaucracy who come largely from the hills. In a national referendum in the early 1980s a majority of the hill people backed the monarchy and voted to retain the panchayat system, while a majority of the terai voted for a multi-party system. To many, the institution of the monarchy itself was jeopardised by too large an Indian population and too much Indian influence.

Bloody street demonstrations broke out against the monarchy in 1990, and after 10 weeks of violent demonstrations in Kathmandu and other towns demanding an end to the panchayat system and the absolute power of the king, the government succumbed. A new Constitution was drafted establishing a limited monarchy, and instituting multi-party elections. A popular government was subsequently elected. Notwithstanding the support given by India to the democratisation movement, many Nepalis remain resentful at the presence of Indians. What form this resentment will take and how the two governments respond will surely affect the already strained relations between the two countries.

Migration of Nepalis to Bhutan

In view of the controversy within Nepal over Indian migration, there is a certain irony in the debate in Bhutan over Nepali migration. Eastern Nepal is particularly poor with little arable land and a high population growth rate. Throughout this century eastern Nepalis migrated to nearby Sikkim, until the mid-1970s a quasi-independent country under Indian control. Sikkim had been predominantly Tibetan Buddhist under the rule of a monarch, the Chogyal [Rose 1977]. By the early 1970s Nepali migrants and their descendants outnumbered the

ethnic Sikkimese. A campaign was launched by the Chogyal and by his American-born wife to emphasise Tibetan culture and language. From 1973 to 1975 Nepalis in Sikkim, many of whom lacked citizenship, agitated for greater democracy, seeking to transfer power from the Tibetans to the Nepalis. India supported this effort, in part motivated by a desire that this strategic region between India and China be under its control. In 1975 India annexed Sikkim, removed the Chogyal, and held multi-party elections which brought the Nepalis to power.

These developments created anxieties among the ruling Tibetans in Bhutan. Bhutan, along with Sikkim, Tibet and Ladakh, is a Himalayan Buddhist state, the only one that has remained independent. The country's official language is Dzongkha, a dialect of Tibetan. Nominally independent, Bhutan's external relations is controlled by India under a 1949 treaty which assures Bhutan that India will not interfere in its internal affairs.

Nepalis began to migrate into the lowland regions of southern Bhutan in the 19th century. There was virtually no opposition to the migrants from Bhutanese rulers, especially since the Nepali population of Bhutan stood by the king in 1950 when the India-based Bhutan State Congress launched an unsuccessful movement for democratisation. Nepalis were given access to government employment and in 1959 were granted Bhutanese citizenship [Rose 1977].

By the mid-1980s, however, King Wangchuk began to express his concern over the growing influx of Nepali migrants. The 1988 census revealed that Bhutan's population was 48 per cent Bhutanese Buddhist, 45 per cent Nepali and 7 per cent others. Nepalis constituted a majority in five southern districts. In an effort to impose Bhutanese-Buddhist cultural hegemony, the king announced a 'code of conduct' (*Driglam Namzha*) which proscribed Nepali and Indian dress and required that residents wear the traditional Bhutanese dress. The teaching of Nepalese was dropped from schools and Dzongkha was enforced as the official language. Violators of the code could be fined and imprisoned. The government also offered inducements for intermarriage between Bhutanese and 'southern' Bhutanese as people of Nepali origin are called [Samarasinghe 1990 and Shah 1989].

An estimated 25,000 Bhutanese of Nepali origin fled to West Bengal, and some 6,000 took refuge in Nepal. Many of the refugees became activists in the Bhutanese People's Party (BPP) which called for the democratisation of Bhutan. BPP activists in India entered southern Bhutan where they clashed with Bhutanese security forces. In December 1990 the Bhutan government announced that residents of Bhutan who could not prove that they came before 1958 must leave the country by January 15, 1991. While no widespread expulsions took place many Nepalis left southern Bhutan for the adjacent West Bengal district of Jalpaiguri.

Though there is sympathy for the Bhutanese Nepalis in West Bengal, the Indian government has thus far avoided giving support to the Bhutanese People's Party. One reason, apart from India's legal commitment of non-interference in the 1949 treaty, is that there is concern in New Delhi over a 'Greater Nepal' movement which might attract support from the substantial Nepali population in the West Bengal districts of Jalpaiguri, and Darjeeling where there is already a Nepali political party demanding a separate 'Gurkhaland' state within the Indian union.

IMPACT OF MIGRATION ON SECURITY AND STABILITY

Porous Borders

These 12 cases demonstrate that none of the states of south Asia has a capacity to control population entry. Borders are porous, for governments lack the administrative, military, or political capacity to enforce rules of entry. Borders are porous for a variety of reasons:

(1) There are few natural boundaries—mountains or rivers—that separate one country from another (with the exception of Sri Lanka from India), and boundaries are often long and on both sides heavily populated.

(2) It is exceedingly difficult for governments to patrol all their borders, to build a sufficient number of check points or to create man made obstacles to border crossings. Several of the countries have border security forces, but these are inadequate to monitor all possible entry points.

(3) On both sides of most of the borders are peoples who share a common language or religion and feel a sense of common ethnic identity, though they are citizens of a different country. Individuals who cross borders can often readily slip into the local community, sometimes among friends and relatives, or into impersonal urban communities where they can find employment.

(4) Countries in the region do not have effective system for identifying their own citizens. Birth registration is not compulsory; only recently have several countries initiated a system of registration of citizens and in no case is the system yet universal; and landowners and urban employers are not required to check on the legal status of those they employ.

(5) Immigrant communities, both refugees and economic migrants, often have local political allies who can prevent the host government from taking measures to force repatriation.

Threat Perceptions

In the period following independence the states of the region were receptive, or at least tolerant of refugee flows, which they regarded as a kind of return migration or an exchange of populations associated with the process of state formation. India and Pakistan both accepted with equanimity the movement of religious compatriots. India accommodated Sikh and Hindu refugees

from Pakistan in 1947, and another influx from East Pakistan in the 1950s; and with some reluctance India also accepted Sri Lankan Indians and Burmese of Indian origin when the newly independent governments of Ceylon and Burma sought to rid themselves of unwelcomed earlier generations of migrants. Similarly, Pakistan accepted refugees after its two partitions: Muslims from India, and some, though by no means all, of the Urdu-speaking Muslims from Bangladesh. However, unlike the earlier population movements, the present international migration flows within south Asia are largely unacceptable, uncontrollable, and a source of conflict among countries of the region and often within the receiving country. To recapitulate:

—India was concerned with the refugee flow from East Pakistan following the outbreak of a civil war in Pakistan in 1971, fearful that Pakistan was purposefully dumping a large part of its population into India to change the demographic and hence political balance between East and West Pakistan.

—Pakistan rejected many 'stranded Pakistanis' for fear that their migration would exacerbate conflicts between Sindhis and Muhajirs, made more acute by the ready access to arms from Afghan mujaheddin.

—Assamese were concerned that the influx from Bangladesh would result in the loss of land, employment, cultural hegemony and political power to foreigners, and that in time they would become a minority within their own province.

—Bhutanese feared that the influx of Nepalis would result in their loss of cultural and political control as had already occurred in nearby Sikkim and that they too would become a minority in their own land as had Tibetan communities in other Himalayan states.

—While the Pakistan government provided military support to refugees who fled from Afghanistan following the communist coup and Soviet military intervention, many Pakistanis were concerned that the refugees might permanently settle, and that their presence had created problems of deforestation, drugs, corruption, and violence that would not readily end even when the Afghans were repatriated.

—India was concerned over the influx of Chakma refugees from Bangladesh into their own densely populated state of West Bengal, the result of a policy by the Bangladesh government to colonise the non-Bengali region of the Chittagong Hill Tracts.

—Bangladesh was concerned over the influx of Bengali-speaking Burmese Muslim refugees from the Arakan region of Burma, pushed out by the Burmese land settlement policy.

—Tamil Nadu, and the government of India, were alarmed that ethnic conflicts within Sri Lanka had led to a steady stream of refugees, some of whom had joined terrorist units that were becoming a threat to Indian public officials, an anxiety intensified with the assassination of former

prime minister Rajiv Gandhi.

—Population movement between India and Nepal, though legal and regulated by treaty, created anxiety among Nepali nationalists. Their concern is that Indians in the terai and in Kathmandu, acquiring land and jobs, are a threat to their efforts to create a cultural and political identity independent of India.

The most common threat-perception arises when migration changes the linguistic or religious composition of the sending or receiving locality:

(1) Conflicts over migration in south Asia have most often occurred when migrants do not share the same ethnicity as the majority of the community into which they move: Bengalis in Assam, Biharis in Sindh, Indians in Nepal, Nepalis in Bhutan, etc. There is a particularly strong concern among smaller ethnic groups in the north-east portions of the subcontinent that they are in danger of being overwhelmed either by Nepali or Bengali colonisation. Whether the migrants come as refugees or as economic migrants may matter less than that they threaten to change the demographic position of local linguistic/ethnic groups. Local anxieties are particularly acute when the numbers of migrants are so large that the autochthonous community feels that its cultural dominance is threatened, its political control weakened, and its position in the labour market undermined.

(2) The entrance of a non-autochthonous migrant population often serves to heighten the sense of identity on the part of the local population. Assamese, Nepalis, Bhutanese, and Sindhis have developed an acute awareness of their own identity in part as a result of the in-migration into their community of other ethnic groups. As communities define for themselves who does and does not belong, they seek to regulate entry within the territory they regard as their homeland. State intervention in south Asia to restrict entry should thus be understood in part as an expression of growing ethnic group solidarity. The increasingly restrictive policies adopted by governments toward migrants are thus only partly, if at all, related to economic considerations.

(3) An influx of refugees from the same ethnic or religious community may also be regarded as threatening when it indicates that the community is being ill-treated at home. Thus, the influx of Sri Lankan Tamils into south India, Burmese Muslims into Bangladesh, and Bengali Hindus from Pakistan into India alarmed the governments of the host countries in part because these flows indicated that ethnic or religious kinfolk were being mistreated, and in part because it suggested that the influx might grow to become a heavy burden on the host community and the government.

(4) A host community may feel threatened when refugees are armed. Refugees may be given arms by the local community or by the government in order to support their struggle against the government of

their home country. But warrior refugees can turn their arms in both directions. We have cited two examples: Sri Lankan Tamil Tigers, armed by India, turned against the Indian government when it lost their support, and went underground in Tamil Nadu, reportedly with help from elements in the Tamil Nadu government. In the second instance, Pakistan armed Afghan refugees, thereby enabling them to expand an illegal drug trade and run a vast smuggling operation from Afghanistan to Pakistan. Arms were also sold by the mujaheddin to local ethnic leaders, thereby turning local ethnic conflicts into armed combat.

Political Role of Refugees

Refugees have not been passive actors. Afghans, Bangladeshis, Sri Lankan Tamils, Chakmas, and Arakanese Muslims all actively sought to influence the government of their host society. Afghan, Bangladeshi, and Sri Lankan Tamil refugees obtained arms from their hosts and found local allies among members of their own ethnic group. Tamil militants in Sri Lanka reportedly received financial support from members of their diaspora abroad. Afghan warrior refugees have become involved in Pakistan politics, working with military intelligence, Jamiat-i-Islami, and with political leaders among fellow Pathans in the North West Frontier Province. In 1971 Bangladeshi insurgents established close ties with the West Bengal government and similarly the Sri Lankan Tamils received support from the government of Tamil Nadu. Clearly, the political influence of refugees on the host government is enhanced by their ties to local ethnic kinfolk.

The short-term and long-term political influence of migrants on a receiving country may be quite different. Initially, for example, the Muhajirs were a dominant element in Pakistan's post-independence government, but only a few decades later they were a politically weak minority ethnic group struggling to hold their own against an assertive Sindhi middle class. Their efforts to open Pakistan's borders to Biharis from Bangladesh has not thus far been successful, though they hope to bring about a policy change by allying themselves with a Punjabi-dominated government in Islamabad. Tamil refugees who arrived shortly after civil conflict arose in Sri Lanka were well received by both the Indian and Tamil Nadu government, but after the radical Tamil secessionist movement, the LTTE, turned against the Indian Peace Keeping Forces in Sri Lanka, they lost much of their support within India. An even larger question mark is the impact that the Afghans may yet have on Pakistan's future political development if a significant portion of the three million refugees do not return home.

Influencing Exit Policies

Since governments in the region have a

limited capacity to prevent unwanted migrant and refugee entries, their primary strategy has been to seek to influence the sending country to halt the migration flows. Unable to control entry, governments often attempt to influence the exit policies of their neighbours. We have identified three strategies to deal with unwanted, unacceptable and uncontrollable entry.

(1) The first has been to exercise diplomatic pressure on the sending country to discourage refugee flows. Such efforts are often made in the initial phases of a refugee movement. India exercised pressure on Bangladesh to change a land policy that was leading to the flight of Chakmas; Bangladesh pressed Burma to halt land policies that led Bengali speaking Muslims in the Arakan region to migrate to Bangladesh; and India pressed Sri Lanka to grant citizenship to some of its estate labourers. In each case, the receiving country took steps to press the sending country to modify its behaviour so as to assure the safety and well being of an ethnic minority.

Diplomacy may be coercive. Governments have threatened to arm refugees to force changes within the sending country that lead to a refugee flight. Pakistan pursued such a policy by arming Afghan refugees, and India by arming Sri Lankan Tamils. Bangladesh threatened to arm Burmese Muslim refugees and permitted small groups of refugees to acquire arms. Though countries within the region differ markedly in their capacity to use force against a neighbour, even weak countries have the option of arming refugees.

(2) The second strategy has been armed intervention to halt the refugee flow and to force refugees to return home. India interceded militarily in the Pakistan civil war to create political conditions in East Pakistan that would enable refugees to return home. Short of direct intervention governments have also moved troops to their borders to engage in local skirmishes in an effort to intimidate would-be migrants and their government. Border clashes also serve to reassure a local population hostile to the influx that their government is taking action to protect their interests.

(3) Local communities, as distinct from their governments, have developed their own strategies for halting an unwanted flow. The most common is to attack those who have already come, including the descendants of earlier migration flows. Local elites may instigate violent attacks not simply to force a migrant community to leave, but to warn those who are considering entering that they will face an inhospitable and dangerous reception. Some forms of ethnic violence are instrumental, intended to deter would-be immigrants.

Unwanted population movements have turned the internal problems of population-exporting countries into international issues. While neighbours may stand by when minorities are persecuted, they are less likely to be indifferent when the minorities flee to

their own country. Governments cannot so easily retreat behind the protective shield of sovereignty when portions of their population flee to a neighbouring country.

Governments in the region now recognise that an exodus can provoke their neighbours in ways that threaten their own security. To no avail, Pakistan argued that its 1971 civil war was an internal matter. Similarly, the government of Sri Lanka initially regarded the Tamil-Sinhalese conflict as purely an internal affair, even as Tamil refugees fled to India. India's interventions have had a salutary effect on all states in the region. South Asian governments are aware that they cannot create or permit conditions that induce their minorities to flee without risking conflicts with their neighbours.

INSTITUTIONAL FRAMEWORK FOR POLICIES

The conflictual character of population movements in south Asia has shaped the institutional framework within which entry policies and responses to the exit rules of others are framed [Sen Gupta 1986]. Decisions are often made at the highest levels of government. Foreign ministries and security and intelligence forces, as well as the military, are part of the decision-making process, while courts and lower level administrative bodies play a lesser role. Population movements have seized the attention of heads of governments in the region and have often been the basis for bilateral negotiations. Cross-border population movements in south Asia are regarded as issues that affect internal security, political stability, and international relations, not simply the structure and composition of the labour market, or the provision of services to new comers.

The paramount regional organisation, South Asian Regional Co-operation (SARC), has chosen to exclude the issue of population movement from its purview for fear that it would disrupt the organisation [Baral 1984]. Nor have countries in the region signed the UNHCR Protocol on refugees. The governments in south Asia have concluded that unwanted migrations, including refugees, are a matter of bilateral not multilateral relations and that international agreements could constrict their freedom of action. India, especially is committed to this position, in large part because of its experience with what it regarded as the unhelpful role played by the UNHCR during the Bangladesh crisis of 1971. There have, however, been a number of bilateral agreements intended to enable flows to take place in an orderly fashion [Kansakar 1985]. A tripartite agreement by India, Pakistan and Bangladesh facilitated the return of refugees from India and the movement of some stranded Pakistanis from Bangladesh to Pakistan. A treaty between India and Sri Lanka established the legal status of estate labourers, and facilitated the repatriation of large numbers to India. The Indo-Nepal treaty permits a two-way flow of popula-

tions, though the open border policy is under considerable criticism within Nepal. An agreement between Burma and Bangladesh, facilitated by the UNHCR, enabled refugees from the Arakan region of Burma to return home, though in recent years the refugee flow has resumed. Though exit and entry rules are regarded by governments in the region as matters of state sovereignty, as a practical matter these rules have been the basis for bilateral negotiations.

The overall thrust of policies within the region is to close borders and to more clearly define who is and who is not a citizen in a region of the world where historically borders were not clearly demarcated or did not exist until quite recently, and where people moved freely with little or no regard for national boundaries or legal conceptions of citizenship. Efforts to co-operate notwithstanding, each country now regards an influx as a threat to its internal stability and security, and an exodus to its neighbours as potentially inviting external intervention.

It should be clear from this analysis that most of the population flows across the national boundaries of states in south Asia are driven by political not economic circumstances. While differentials among countries in income, employment opportunities, and access to land do play a role in population movements in the region, far more important are the political circumstances within the sending countries, the porosity of borders, the affinity that migrants have to ethnic kinsfolk across an international border, and the willingness of governments of receiving countries to accept migrants. Politically determined migrations in south Asia often diminish the ethnic heterogeneity of the country of origin whereas economic migrations have made the countries of destination more heterogeneous.

There is, however, one common dimension to political and economic explanations of migration. Both postulate some form of disequilibrium. Economists point to a disequilibrium between sending and receiving countries, one which induces migrants to move from areas of low wages to areas of high wages, from areas of low to high employment, and from areas of high to areas of lower agricultural land use. In contrast, however, the political science conception is of a disequilibrium within the sending country as a primary determinant of international population movements, a movement which may in turn generate a disequilibrium within receiving countries. For this reason a politically driven model of international migration is a highly conflictual one, both for sending and receiving countries. Moreover, while economic explanations of migration induce one to think about ways to reduce economic differences between sending and receiving countries in order to reduce unwanted international population movements, political explanations for migration induce one to

think about ways to resolve political differences among ethnic groups within the sending countries or between a people and their government.

Appendix

Population Movements among the Countries of South Asia

(All numbers are approximate)

From West Pakistan

To India: Hindus, Sikhs, 1947-48 (7 to 8 million)

From East Pakistan/Bangladesh

To India:

(a) Bengali Hindus to West Bengal and Tripura, 1947-50

(b) Bengali Hindus and Muslims, 1971, 9-10 million)

(c) Bengalis to Assam, 1971-1981 (1 to 2 million)

(d) Chakmas from CHT to north-east India

To Pakistan: Biharis ('Stranded Pakistanis') (1,70,000)

From India

To West and East Pakistan: Muslims, 1947-48, (6 million)

To Nepal: North Indians to the Terai and Kailhandu

To Bangladesh: Return of Hindu, Muslim refugees, 1972 (8 million)

From Sri Lanka

To India: Sri Lankan Indian estate labourers, 1964-1980 (3,40,000)

Sri Lankan Tamils, after 1983 (1,25,000)

From Nepal

To India: Darjeeling, Assam

To Sikkim:

To Bhutan

From Burma

To India: South Indians to Tamil Nadu, (1,50,000+)

To Bangladesh: Burmese Muslims from Arakan (2,50,000)

From Afghanistan

To Pakistan's North-West Frontier Province, Sindh and Baluchistan (3.0 million)

From China

To India: Tibetans, (under 1,00,000)

To Bhutan: Tibetans

[I wish to acknowledge support from the Ford Foundation for the research that made this study possible. Field work took place in 1986 with trips to Sri Lanka, India, Bangladesh, Nepal, and Pakistan where interviews were conducted in the ministries of foreign affairs, labour, home, and other government agencies concerned with international population movements and migration policies. Interviews were also conducted with academics and journalists. Materials for this paper were drawn from my field work and supplemented by government reports and secondary sources. Interview sources include, in Pakistan: Said Azhar, Larry Crandall, Justice Muhammad Afzal Chema, Syed Aqeel Zafar-ul Hasan, Ijaz Gilani, Noor A Husain, Abdul Sattar, Farooq-I-Azam, Haseebur-Rahman, and S K Singh; in Bangladesh: M Abdul Hafiz, M Shamsul Haq, Abdur Rob Khan, Raisul Awal Mahmood, Howard Schaffer, Tamveer Khan, A M A S Siddiqui, C

M Shafi Sami, Fazlul Hussain Yusuf, Mohiuddin Ahmed, M Atuar Rahman, and Talukdar Maniruzzaman; in Sri Lanka: Ratnayake, Jayanta Rajapaksa, Tusantha Wijemanna, W A A S Pieris, P Devraj, Neelan Tiruchelvan, Frank Jayasinghe, R B M Korale, Radika Coomaraswamy, Marc Fernando, CR de Silva, Kingsley, M de Silva, S W R A Samarasinghe, Swarna Jayaweera, J N Dikshit, Panditharatna, Kiri Bamune, and Godfrey Gunetilleke; in Nepal: Harka Bahadur Gurung, K B Singh, Y P Pant, Dor Bahadur Bista, Rishikesh Shah, Lok Raj Baral, Dwarika Nath Dungal, Kedar Nidhi Tikwari, Vidya Bir Singh Kanaskar, B B Upretty, Vikram Shah, Ambassador Yadu Kanak, Mahesh C Regmi, K R Sharma, and Verma; in India: L P Singh, Shekhar Gupta, Sanjoy Hazarika, Bhabani Sen Gupta and Ashish Bose.]

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Privatisation Policy

D M Bhouraskar

CLAIMING that neither the government nor its critics have "a really clear picture of the overall privatisation policy", Prajapati Trivedi, in his article 'What Is India's Privatisation Policy?' (*EPW*, May 29, 1993) sets out "to piece together various policy pronouncements and publicly available documents on this subject to outline what appears to be India's approach to the issue of privatisation".

Stating that "the root cause for the interest in the privatisation option is the perceived inefficiency of public enterprises ...[which] is usually measured with the help of financial profitability" he argues for a close examination of the nature of losses in the public sector. He then goes on to discover the government's policy towards privatisation relying solely and exclusively on the classification and treatment of losses as given in the government's *Monograph on the Performance Status of Central Public Sector Enterprises* (1991).

The perception of inefficiency merely in terms of losses inevitably leads to his 'Concluding Comments' where the bottom line is that the government will consider privatisation as a last option only for those competitive public enterprises whose losses are 'illegitimate' and irreversible. Such enterprises are evidently eminent candidates for liquidation because why would private sector reach for a public enterprise whose losses are beyond redemption? It seems that the government's approach to privatisation includes only two choices: retention in the public sector or liquidation. In other words, the government is not in favour of privatisation as it is generally understood and implemented in countries such as UK, France, Chile, etc.

I wish to suggest that an approach to privatisation based merely on an analysis of different types of losses is inadequate and misleading and distracts from an objective search for a rationale for privatisation. Profits vary as much for different types of public enterprises and this may be due to easier access to credit, concessional terms of finance, government guarantees on enterprise borrowing, non-enforcement of standards, subsidised inputs, guaranteed internal demand, lower levels of executive compensation, and other privileges enjoyed by public enterprises. Financial performance, though

relevant, cannot be the determining factor in decisions relating to privatisation. Efficiency considerations—allocative and productive—are more important and privatisation is justified when competition in the market-place can improve the efficiency of a public enterprise.

The classification of losses into four dimensions is in itself somewhat flawed. The first dimension excludes statutory monopolies (e.g., Indian Airlines) which are created by legislative fiat and are not natural monopolies. The concept of 'implicit losses', included under the transparency dimension, is at best an elusive one and fraught with measurement problems. The classification seems to equate potential profit with maximum profit since the former is expected to be higher than the actual. But in certain cases (e.g., public monopolies), the so-called potential profit may be attained only at the expense of consumer welfare. Moreover, potential profit is the flip-side of maximum efficiency which can be defined only in cost terms. Assuming perfect markets, competitive public enterprises can raise their profit levels only by cutting costs, i.e., improving their efficiency. But for a determination of 'optimal' or 'minimum' costs, only empirical norms are possible and available. And these change over time both for individual enterprise performance as well as for performance within the industry. Perhaps a plausible concept of 'implicit losses', in the context of privatisation, can be based on rates of return in the private sector. If the rate of profit in a public enterprise is less than that in a comparable private sector enterprise the public sector enterprise can be said to incur an implicit loss. The use of 8 per cent average profit rate used in the government's *Monograph* to draw the line for implicit losses is convenient but not correct. If the 84 public enterprises (see Table 3) were to earn 8 per cent profit on capital employed, they would generate additional resources of approximately Rs 1,839 crore and raise total profits for 131 enterprises from Rs 5,741 crore to Rs 7,580 crore. The average rate of profit would then be 10.5 per cent but the 84 enterprises will still be below the average. As the average shifts, so will the target for acceptable profitability. The concept of 'implicit losses' is therefore illogical and impractical. The concept of

legitimate losses is redundant because a government is expected to reimburse public enterprises for social obligations placed on them. Such losses are clearly avoidable.

Picking up the four dimensions of losses, Trivedi has weaved them into a 'Privatisation Matrix' (Figure 1) to present the overall picture and their inter-relationships. But in doing so, he has introduced several logical inconsistencies. As I have said before, the concept of 'legitimate losses' is redundant and even if this concept is to be used it would merit only cells 1 and 2 and not 5 and 6 because such losses are reversible in the conceptual framework of the classification. The fourth dimension—degree of turnaround potential—does not really apply to public enterprises incurring 'implicit losses' because they are in fact earning profits. The concept of turnaround in business or elsewhere is used only for loss-making enterprises. Generously, one might concede that 'implicit losses' of some public enterprises may be 'legitimate' in the sense that they could have earned more without social obligations. But it is very difficult to imagine how the so-called 'implicit losses' can be called 'illegitimate'. There is a fundamental difference between inefficiency resulting in explicit losses and in lower levels of profit. Their implications for policy are also different. On the whole, the eight cells relating to 'implicit losses' and the four cells pertaining to 'explicit-legitimate losses' just do not have a place in the matrix. When these are excluded, Trivedi's matrix collapses into merely four cells (9, 10, 13 and 14). We then have only truly inefficient loss-making enterprises and if we follow the path of discovery we find that the government will privatise only those which it cannot turnaround in the public sector. Two cheers for the policy of privatisation!

Finally, a comment on disinvestment policy. I do not believe that it was crafted to rescue ailing enterprises and for compensating and retraining displaced workers from closed enterprises. It is meant to raise resources to lower the fiscal deficit in the stabilisation context. But if it has the objectives ascribed to it, then it is a bad policy to punish efficient enterprises to save the inefficient ones. Figure 2 gives a very rosy scenario of a smooth and stressless strategy to make all public enterprises profitable. One wonders why this cross-subsidisation, which was always possible, was never used in the past to endow the nation with nothing but all profitable public enterprises.

Poverty Levels in India: Norms, Estimates and Trends

EPW Research Foundation

THE debate and the associated literature on the concept and measurement of poverty levels based on a single poverty norm have been extensive and fascinating. While recognising that poverty is multi-dimensional in character and that it manifests itself in a variety of socio-economic characteristics, individual scholars and official agencies have nevertheless, considering the immensity of its incidence, thought it necessary to evolve a single yardstick that would help estimate the number of people in poverty in the country. The poverty line so defined has been clearly distinguished from the measure of undernourishment or that of inequality, though they are all closely interrelated.

ORIGIN OF RS 20 NORM

During the planning era, the subject of defining a poverty line was first posed at the Indian Labour Conference in 1957. Subsequently, in July 1962, the Planning Commission set up a distinguished Working Group¹ which, after considering the recommendations regarding balanced diet made by the Nutrition Advisory Committee of Indian Council of Medical Research (ICMR) in 1958, advocated a national minimum expenditure for every household of five persons (or four adult consumption units) at Rs 100 per month or Rs 20 per capita per month in terms of 1960-61 prices so as to provide a minimum nutritional diet in terms of calorie intake as well as to allow for a modest expenditure on items other than food (except on education and health which were expected to be provided by the state). The Working Group suggested that for urban areas the minimum would have to be raised to Rs 125 per month per household or Rs 25 per capita per month "to cover the higher prices of the physical volume of commodities on which the national minimum is calculated" [Planning Commission 1962]. Though the Working Group did not provide the statistical basis of its estimation, subsequent official publications revealed that it had taken into account the recommendations of the ICMR on balanced diet [CSO 1981 and Gupta 1989]. Again, though the Working Group did not so specify, official reports subse-

quently have placed by implication the corresponding figure for rural areas at Rs 18.90 per capita per month² [CSO 1981].

The perspectives brought to bear on the estimation of this minimum, both by the Working Group and the then Planning Commission, were interesting. It was perceived that the balanced diet recommended by the Nutrition Advisory Committee together with a modest standard of consumption of other items would cost approximately Rs 35 per head per month at 1960-61 prices; by itself this was by no means a high standard but at that time less than 20 per cent of our people could afford it. Considering the impossibility of attaining exceptional growth in income (of, say, 10 to 12 per cent per annum) implied in the target of the whole population being raised above the poverty level in a 15-year perspective, a balance had to be struck between what was considered desirable and what was in fact feasible by way of growth and income redistribution within a given time frame. Therefore, the national minimum to be achieved for all in the 15-year perspective (i.e., by the Fifth Five-Year Plan or 1975-76) had to be defined in more modest terms; it was set at Rs 20 per capita per month at 1960-61 prices [Planning Commission 1962 and *Sankhya* 1974].

NSS DATA AND CALORIE AND EXPENDITURE NORMS

During the 1960s and the 1970s, a spate of studies undertaken by research scholars attempted more systematic evaluation of the poverty norm or its implication for the number of people below the poverty line—some of them only in the context of the rural poor and some for both rural and urban areas. Though the Rs 20 at 1960-61 prices norm is frequently quoted, a few of the subsequent studies have adopted more systematically worked-out expenditure norms or what have come to be known as poverty lines. Depending for this purpose on the nationwide consumer expenditure surveys of the National Sample Survey Organisation (NSSO) available annually up to 1973-74 and by quinquennium thereafter, these studies have employed (a) some desired calorie norm

to be derived from foodgrains and other food items; (b) information regarding the calorie content of food items; and (c) identification of the expenditure class in the size distribution of the household consumption expenditure as per the NSS Rounds which satisfies the desired calorie norm. To get the point estimate of the expenditure value from the discrete expenditure size-groups, equal distribution of the population lying in the size group [Dandekar and Rath 1971] or linear interpolation method [Planning Commission 1979] or Lorenz Curve of consumption distribution [Ahluwalia 1978] has been adopted.

The cut-off expenditure so arrived at, which is partly normative and partly behavioural, thus comprises expenditure on food items (equivalent to the calorie norm) and the balance which is the actual expenditure on non-food items. It was generally found that rural households at the poverty level spent a little less than 60 per cent on foodgrains and substitutes, about 20 per cent on other items of food and the remaining 20 per cent on non-food items. The corresponding pattern of consumption for the urban poor was 36.5 per cent, 33.5 per cent and 30 per cent, respectively. These proportions have shown only a gradual declining trend over the decades.³ It should be mentioned in parentheses that, to our knowledge, in the entire range of poverty studies—official and non-official—never has there been any doubt raised or enquiry made of the adequacy or otherwise of the 20-30 per cent expenditure on non-food items for providing other components of basic needs essential for human existence at a tolerable level (even assuming substantial expenditure on education, health, etc., by the state).

Minhas (1970), in one of his early studies, preferred a level of poverty line at Rs 200 per year per person for rural areas (or Rs 16.67 per month) compared with the national average of Rs 240 per year per person (or Rs 20 per month) recommended by the Working Group (1962), though he estimated the number of people below the poverty line in rural areas based on both of these norms and also for all-India as per the Rs 240 norm

[Minhas 1969]. Ojha (1970), taking the minimum calorie need of a reference man at 2,250 per day, derived the corresponding expenditure on foodgrains consumption per day and the resultant aggregate consumption expenditure; this minimum expenditure requirement worked out to Rs 18 per person per month for the rural population and only Rs 11 per person per month for the urban population.

Bardhan (1973), stating that the rural minimum should be somewhat lower than Rs 20 per person per month at 1960-61 prices, preferred Rs 15 as a conservative estimate initially, but later firmed it up at Rs 14 for 1960-61 and Rs 28 for 1968-69, based on the valuation of a normative minimum diet as reported by the Central Government Employees' Second Pay Commission (1957-59) which in turn took into account the norm of 2,700 calories and 55 grams of protein for an adequate diet for an average Indian adult in moderate activity as recommended by W R Aykroyd in 1951 and subsequently modified by the ICMR in 1958 (adequate to maintain various life processes, though not at their peak levels). Bardhan worked out the cost of this diet at 1960-61 and 1968-69 prices and, using the NSS expenditure proportions for food and non-food items, derived the per capita expenditure based on the cost of minimum diet as shown above. Ashok Rudra (1974) adopted a procedure similar to that of Bardhan (1973) but arrived at three alternative rural poverty lines by evaluating three different specifications of the minimum normative diet as recommended by P V Sukhatme, the FAO and Patwardhan (Second Pay Commission); his estimates of rural poverty lines were Rs 22.73, Rs 28.60 and Rs 15.63 at 1960-61 prices, respectively. Assuming that urban food prices were higher by 10 per cent than rural prices and taking NSS consumption data, Rudra derived three corresponding urban poverty lines thus Rs 27.33, Rs 33.73 and Rs 18.99 at the same 1960-61 prices.

The most systematic and celebrated work on the poverty-level question is that of V M Dandekar and N Rath (1971). Assuming that a calorie intake norm of 2,250 per person per day would be adequate under Indian conditions for both the urban and rural populations and using the NSS data on sizewise household consumption, Dandekar and Rath defined the poverty line as the expenditure level at which the average calorie intake met this norm. Though the same calorie intake norm was applied for rural and urban population, the Dandekar-Rath study took into account the differences in consumption patterns and also in the prices

of commodities facing rural and urban households. They thus arrived at the poverty line of Rs 170.8 per capita per annum for a rural household (Rs 14.2 per capita per month) and Rs 271.7 for an urban household (or Rs 22.6 per capita per month), both at 1960-61 prices. Noting that the rural minimum determined by them was considerably below that proposed by the distinguished Working Group (1962) while the urban minimum was a little above it, Dandekar and Rath revised their rural minimum to Rs 180 per annum or Rs 15 per month, and rounded off the urban minimum to Rs 270 per annum or Rs 22.5 per month.

Ahtuwalla (1978), quoting well-established pedigree for it, used a consumer expenditure level of Rs 15 per capita for 30 days at 1960-61 prices for rural areas. Subsequently, there was a study by Bhaskar Dutta (1980) which took the same poverty line for rural areas, but for urban areas chose a poverty line of Rs 20 per capita per month at 1960-61 prices on the assumption that the rural-urban price differential for the poor in 1960-61 was approximately 20 per cent and that there were certain imposed and induced needs which were not reflected in the above rural-urban price differential, thus explicitly recognising, unlike some of the earlier studies, that the rural-urban consumption differences at the poverty level were attributable not only to price differences but also to differences in physical needs.

UNDERNUTRITION VS POVERTY

What has come to be termed as a fundamental attack on the calorie intake and balanced diet methods came from V K R V Rao (1977) and P V Sukhatme (1977, 1978) [quoted in Dandekar 1981]. Citing the presence of households with calorie intake below the prescribed norm in NSS data for 1971-72, Rao found the results paradoxical in that "the poor as defined also include the not-poor and that the not-poor include the poor". Rao (1977) sought to identify poverty with deficiency in the total level of living which included not only energy requirements but also balanced diet needed for health and other components of basic needs essential for human existence at a tolerable level. Impliedly, Rao perceived that estimates based on the calorie intake and balanced diet method underestimated poverty levels whereas Sukhatme (1977) argued that the 'correct' estimate of poverty was at about one-half of the estimate put forward by Dandekar and Rath (1971); Sukhatme considered that the figure of calorie requirement used in such studies was not the

minimum but the average requirement of a healthy, active population of the reference type; thus, the dimensions of poverty were exaggerated. In defence, Dandekar (1981) argued that (a) both Rao and Sukhatme emphasised the method for estimating undernutrition whereas the Dandekar-Rath study dealt with measurement of poverty; and (b) whatever criterion we chose, including the cost of essentials of tolerable human existence, ultimately it was the expenditure level so determined and not the chosen criterion that defined the poverty line.

Despite the exciting controversy raging in the academic literature and despite the fact that the ball was set rolling by a distinguished Planning Commission Working Group (1962), the official and planning agencies kept themselves aloof from the subject for a fairly long period until the time the Draft Fifth Five-Year Plan was being prepared in 1974 by the new Janata Dal government at the centre. Interestingly, this period of neglect coincided with the Plan holiday and sluggish planned investment. For about a period of 15 years from the Third Plan (1961-66) to the Fifth Plan (1974-79), Five-Year Plan documents made no reference to the poverty line question or the estimated incidence of poverty.⁴ The decision to define poverty rather precisely, to present a concrete measurement thereof and to use it as a plan target was taken for the first time during the formulation of the Sixth Five-Year Plan.⁵

On the eve of the formulation of the Draft Five-Year Plan 1978-83 (which popularised the concept of a rolling plan for a brief period and which gave greater focus on the minimum needs programme), a Task Force on Projections of Minimum Needs and Effective Consumption Demand was set up by the Planning Commission in July 1977 which adopted the same Dandekar-Rath method of applying the nutritional norm to identify the cut-off point in the size distribution of consumer expenditure data, but the nutritional requirements were worked out separately for rural and urban households in a detailed manner by applying age, sex and occupation-specific daily calorie requirements per person (as recommended by the Nutrition Expert Group of the ICMR, 1968) [see Planning Commission 1979]. For this purpose, use was made of the estimated age-sex structure of the population for 1982-83 derived from the population estimates (111 projection) of the Expert Committee on Population (1977) coupled with the 1972 census occupational structure and participation rates based on 'usual activity status' gleaned from the NSS employment data con-

tained in its 27th Round (1972-73). Thus, on the basis of a detailed exercise, the Task Force redefined the poverty line at the nutritional requirement of around 2,435 calories per capita per day in rural areas and about 2,095 calories per capita per day in urban areas (rounded off to 2,400 and 2,100 calories, respectively, in all the subsequent Five-Year Plan documents). To work out the monetary counterparts of these norms, the Task Force used the 28th Round (1973-74) NSS data relating to private consumption both in quantitative and value terms and, applying the appropriate conversion factors, derived calorie content of food items of each monthly per capita expenditure class separately for rural and urban areas. Applying the inverse linear interpolation method to the data on the size classes of average per capita monthly expenditure and the associated calorie content of food items in the relevant expenditure classes separately for rural and urban areas, the Task Force estimated the poverty lines at Rs 49.09 per capita per month for rural areas and at Rs 56.64 per capita per month for urban areas at 1973-74 prices. P V Sukhatme, who was a member of the Task Force, reiterated that the above calorie requirement was the average and not the minimum required for biological existence and hence strongly recommended that 75 per cent of the poverty lines could be considered as the appropriate cut-off point. Though such a modest poverty line was once highlighted in the Draft Five Year Plan 1978-83 [Planning Commission 1978] but never used since then, the Task Force emphasised that the calorie requirement at the above modest poverty line was very close to that required for biological subsistence.

The above 1973-74 poverty lines have become in literature the second landmark estimations and have served as the base for a number of subsequent studies on poverty including the elaborate ones by Minhas et al which have constructed suitable all-India and state-specific consumer price indices relevant for rural and urban poverty group levels, worked out and updated/down-dated the all-India and state-specific poverty lines, and estimated the head-count ratios of poverty. (More on their estimates later.)

In the literature, bench-mark estimates using the NSS data relating to private consumption in quantitative and value terms have thus been undertaken only for two reference years, 1960-61 and 1973-74. For the subsequent years for which the NSS data are available, the poverty lines have been updated/down-dated by the relevant price deflators: wholesale price indices

[Dandekar 1988 and Gupta 1984 for both rural and urban areas]; consumer price index for agricultural labourers in respect of the rural poor [Bardhan 1973, Ahluwalia 1978 and 1986, and Dutta 1980] and consumer price index for industrial workers in respect of the urban poor [Dutta 1980 and Bardhan 1974] or a combination of the consumer price indices for industrial workers and urban non-manual employees for the urban poor [Minhas et al 1987]; and, more importantly, separate all-India and state-specific price indices for the rural and urban poor [Minhas et al 1990 and 1991].

CRITIQUE OF THE PLANNING COMMISSION'S APPROACH

The Planning Commission on its own has been updating the 1973-74 lines from time to time based on some chosen deflators (Table A).

As may be observed from the above, the Planning Commission used the wholesale price index as deflator during the Sixth Plan period and the CSO's private consumption deflator during the Seventh Plan period and onwards [Gupta 1989: 172-73]. No distinction has been made between the rural and urban cost of living in this respect. A study group appointed by the Planning Commission on the concept and estimation of poverty line apparently recommended the use of the CSO's private consumption deflators as the second-best solution until appropriate price indices using separate indices for all commodities and services consumed by households near the poverty line and weighted by the most recently available consumption baskets of the poor were constructed [PPD study on 'Concepts and Estimation of Poverty Line' (1984) quoted in Gupta 1989: 175-76]. Such an elaborate work has not been obviously undertaken by the Planning Commission and Minhas et al (1987 and 1991) have been critical of the Planning Commission's attempt to bypass the enormous task involved in constructing separate cost of living indices needed to reflect the impact of differential changes in consumer prices in rural and urban India, despite the existence of 15 per cent difference as between the rural-urban poverty norms for the base year (1973-74). Gupta [1989: 176] nevertheless justifies the use of the CSO's private consumption deflators and their uniform application to rural and urban areas on the ground that detailed estimates of price increases made by Minhas et al showed that they were very close as between rural and urban sectors and also they were not much different from the CSO's private con-

sumption deflators. This has, however, been disproved by the fact that there are significant differences in the estimates of the incidence of poverty depending on whether the price adjustment was made based on the official method or the method used by Minhas et al (Table 7).

Yet another criticism of the Planning Commission's approach relates to the large *pro rata* adjustments made to the observed size distribution of consumer expenditure because the CSO's estimate of total private consumption expenditure in its National Accounts Statistics (NAS) exceeds by a large margin the total consumption expenditure estimated from the NSS Rounds. For instance, the NAS estimate was 22 per cent higher than the NSS estimate for 1983-84 and 27.5 per cent higher for 1987-88. In a series of studies on the comparisons of the NSS and CSO estimates of private consumption, Minhas et al (1989) have brought out the serious infirmities in the NAS estimates of private consumption and thus questioned the validity of the *pro rata* adjustment by the Planning Commission of the NSS size distribution of consumer expenditure. In sum, studies by Minhas et al (1989 and 1991) have preferred the head-count ratio estimates of poverty based on the NSS data without any adjustment.

STATE-SPECIFIC COST OF LIVING INDICES

Yet another major refinement introduced by Minhas et al (1990) relates to the use of state-specific cost of living indices relative to all-India separately for rural and urban middle population for working out the state-specific poverty lines and estimates of the incidence of state-wise poverty. The methodology employed in this respect is as under. First, given the all-India poverty lines of Rs 49.09 per capita per month for rural and Rs. 56.64 per capita per month for urban areas at 1973-74 prices, the same have been con-

TABLE A

For the Year and at Price Level of	Rural (Rs per capita per month)	Urban (Rs per capita per month)	Nature of Deflator Used
1973-74	49.09	56.64	Base data
1976-77	61.8	71.3	Wholesale price index
1977-78	65.0 (61.05)*	75.0 (81.0)*	-do-
1987-88	131.8	152.13	CSO's private consumption deflator

* Corresponding to the norms developed by the 1962 Working Group.

verted into the equivalent of all-India rural and urban prices prevailing in the subsequent NSS survey years using the appropriate cost of living indices for the relevant middle-range of population in rural and urban areas separately. Second, these all-India rural and urban poverty norms for individual years are converted to state-specific prices by using the state-specific price indices relative to all-India = 100 for the respective years (all separately for rural and urban areas). Third, juxtaposing the statewide poverty lines so derived against the size distributions of per capita total expenditure (PCTE) available from the NSS, the head-count ratio measure of poverty incidence in each state, separately for rural and urban areas, in each of the reference years, has been worked out. It has been found that the all-India rural and urban head-count ratios and the actual number of people below the poverty line aggregated from the statewide data were somewhat higher than the direct estimates of all-India poverty incidence derived from the all-India price indices worked out for the same rural and urban middle population categories.

It may be recalled that at the first stage the refinement to the poverty line estimation was undertaken at the all-India level wherein Minhas et al (1987) constructed two price indices at the all-India level: (i) one relevant to the rural poor called the consumer price index for middle rural population (CPIMR) based on the observed rural retail prices and the 1970-71 consumption pattern of approximately three middle deciles of rural households, and (ii) another for the urban poor which combined the consumer indices for industrial workers and urban non-manual employees with their respective weights (called CPICU). At the second stage, state-specific rural and urban consumer price indices with the weighting diagrams relevant for the middle groups of the respective population have been worked out and with the help of the state-specific price differentials (in relation to all-India), poverty norms and incidence of poverty for various states (and aggregated for the country as a whole) have been estimated [Minhas et al 1990 and 1991]. This is again a significant improvement over what the Planning Commission has done: "For estimating the incidence of poverty state-wise, again the same poverty lines—one for the rural and another for the urban—were used. This is rather heroic since the consumption pattern and the price deflators in different regions vary significantly. But for the operational use, the consensus was in favour of taking the same poverty lines for all the States" [Gupta 1989: 177].

The most commonly used index of poverty, as shown above, is the proportion of people below a given poverty line or norm which is also called the head-count ratio. This does not depict the extent to which the income/expenditure of the poor falls short of the poverty norm. The concept of poverty gap or income gap ratio is intended to fill this lacuna. The income

gap (I) is generally measured by $I = 1 - \frac{y_p}{z_p}$

where y_p is the mean income of the poor and z_p is the poverty line. While the head-count ratio ignores the amounts by which the incomes of the poor fall short of the poverty line, the income gap is said to be independent of the number actually in poverty. Both the measures are said to be insensitive to intra-poor transfers of income. A K Sen suggested a comprehensive measure which takes into account not only the head-count ratio (H) but also the average income gap measure (I) and the Gini co-efficient amongst the poor (Gp) [Sen 1973]. Sen's P index thus captures the intensity of poverty. $P = H [1 + (1-I) Gp]$, where the incidence of poverty is relatively high. Some estimates of the latter two concepts are also reproduced in the accompanying tables.

TRENDS IN INCIDENCE OF POVERTY

Table 1 presents a synoptic picture of the evolution of poverty estimates in India and Tables 2 to 7 reproduce the estimates made by various scholars over the years and also those made by the Planning Commission (or by officials associated with the Planning Commission). A detailed review of these estimates is beyond the scope of this note. Nor does the note focus on the various explanations offered of the causes and trends in the incidence of poverty. In this respect, the literature has no doubt seen interesting themes such as (i) unduly large number of dependents to be supported (Dandekar and Rath); (ii) scarcity of land and landlessness and incidence of rural labour [Dandekar and Rath 1971]; (iii) rural poverty being characterised by agricultural labour without land, other rural labour without land, some agricultural labour with land, and small land operators [Minhas 1970]; (iv) rural poverty falling in periods of good agricultural performance and rising in periods of poor performance [Ahluwalia 1978]; (v) inclusion of agricultural income, price and time in explaining poverty (see the examination of Dharm Narain's contributions in this respect in Ahluwalia 1986); (vi) the complex relationship between infrastructural development and prices, on the one hand, and

poverty levels, on the other [Rao et al 1986]; and (vii) a succinct review of the concepts and estimation of poverty as also of the statistical association between the temporal changes in the incidence of poverty on the one hand and a number of secular forces on the other [Mellor and Desai 1986]. The present note does not also deal with the theme of the trickle-down mechanism which has been debated extensively in the literature [Gupta 1989, Ahluwalia 1986, Bardhan 1986 and Raj Krishna 1983]. Also, in explaining the behaviour of poverty incidence, the nature of agricultural situation obtaining in the NSS survey years (1983 or 1987-88) has also been dealt with in the literature; likewise, the role of IRDP and other special employment programmes in mitigating poverty, particularly during the Sixth Plan period [see Krishnaswamy 1990]. There have also been individual state-level studies which we have not reviewed here (see, for instance, the study on West Bengal [State Planning Advisory Board 1979], on Punjab [Rajaraman 1975] and on Assam [Saikia et al 1988]). A correct and systematic estimation of poverty ratios is all the more necessary at the state level as they are used for operational decisions concerning allocation of central funds.

Broadly, the trends could be summarised thus. First, both rural and urban sectors showed a trend increase in the incidence of poverty between the mid-1950s and the mid-1970s (1977-78 to be specific); thereafter there has occurred a gradual but steady decline in poverty levels. This is so whether one looks at the head-count ratio or the income-gap index or Sen's poverty intensity index. Secondly, there are significant interest-state differences in the incidence of poverty with the weighted co-efficient of variations across states rising significantly up to 1983 and declining thereafter for rural areas but continuously rising in respect of the urban areas. Many states have shown similar trends as in the case of the all-India incidence, but some of them like Assam, Bihar, Jammu and Kashmir, Karnataka and Uttar Pradesh have shown relatively slower reduction in the declining phase. Thirdly, the Planning Commission estimates of poverty based on less sophisticated price adjustments and also *pro rata* adjustments for the so-called underestimation of private consumption in the NSS data have come to be questioned fairly convincingly by Minhas et al.⁶ Their estimates of head-count ratio were 9 to 10 percentage points higher than those of the Planning Commission for 1983. The differences are much wider for 1987-88, namely, 12 percentage points for the rural population

and as high as 17 percentage points for the urban population. Appropriately computed incidence of poverty in 1987-88 works out to 48.7 per cent for rural areas (as against 32.7 per cent given by the Planning Commission), and 37.8 per cent for urban areas (as against the official 19.4 per cent) and 45.8 per cent for all-India (against 29.2 per cent) [Planning Commission figures as quoted in Minhas et al 1991]. The incidence of poverty has declined over the years but "the Planning Commission has not bothered to learn from them [the many analytical studies] and has been merrily using the same old, analytically and empirically questionable methods, leading to generation of misinformation about the country's progress on the poverty alleviation front. The massive reduction in the incidence of poverty between 1983 and 1987-88, as reported by the Planning Commission, is a consequence of the peculiar statistical artefacts used by it" [Minhas et al 1991: 1679]. Besides, despite the decline in the head-count ratio, the absolute numbers of the rural poor rose from 257.9 million in 1970-71 to 276.8 million in 1983 and further to 283.7 million in 1987-88. In urban India, the corresponding numbers of the poor rose from 50.4 million to 69.2 million and further to 77.5 million. For the Indian union as a whole, the population in poverty grew from 308.3 million in 1970-71 to 346.0 million in 1983 and to 361.2 million in 1987-88. "Incidentally, the total population of India was about 361 million in 1951, whereas the population of the poor alone was exactly of the same magnitude in 1987-88" [Minhas et al 1991: 1680].

Thus, the debate on the concept and measurement of poverty has come a long way, yet there is no agreement on the methodology of estimation between scholars and the government. Nor has the literature made much headway in dissecting the poverty profile in terms of labour and land-owning and other social classes or in terms of the nature and extent of deprivations of basic needs and health and educational standards. The report of the Expert Group appointed by the Planning Commission to examine afresh the methodology of poverty estimation is therefore awaited.

POSTSCRIPT

The Expert Group Report, referred to above, has since been submitted. The Group has argued that having decided to accept the minimum standard of living, defining poverty normatively, it should be applied uniformly to all parts of the country for assessing poverty and the commodity basket corresponding to this norm

should be standardised at the national level and applied to all states uniformly. As for the major recommendations, first, the Expert Group has accepted the poverty base line of Rs 49 (rural) and Rs 57 (urban) at 1973-74 prices anchored on the recommended per capita daily intake of 2,400 calories and 2,100 calories, respectively, with reference to the consumption pattern of 1973-74. Second, for deriving state-specific poverty lines, (a) the standardised commodity basket corresponding to the poverty line at the national level should be valued at the prices prevailing in each state in the base year, ie, 1973-74; and (b) state-specific consumer price indices have to be constructed, using (i) the observed state-specific consumption pattern of the 20-30 per cent of the population around the poverty line in 1973-74 as the state-specific weighting diagram, and (ii) disaggregated relative prices from the consumer price index for agricultural labourers (rural) and the consumer price index for industrial workers and urban non-manual employees (urban).

The Expert Group has argued that it was better to rely exclusively on the NSS data for estimating the poverty ratio rather than adjusting the poverty estimates derived from the NSS to bring them in line with the per capita consumption expenditure obtained from the NAS put out by the CSO. The Expert Group has called upon the CSO/Planning Commission to undertake further work in the areas of poverty estimation, as also to supplement the estimates of overall poverty with a more comprehensive report on the levels of living of the population. First, non-availability of appropriate state-specific cost of living indices is an important gap in data availability for making state-specific estimates of poverty and hence the CSO should take immediate steps to construct such indices representing changes in consumer prices of the poor at relevant disaggregated levels. Secondly, in order to provide a complete picture of the state of well-being of the population, data on the composition of the poor population in terms of dominant characteristics such as region, social group, educational and health as also nutritional standards and by living environment should be collected and analysed by the Planning Commission.

Table 8 presents the incidence of poverty in rural and urban areas, separately worked out for each state and aggregated for all-India. The results do show that hitherto the Planning Commission has been underestimating the size of poverty both in rural and urban areas. Thus, the Expert Group has placed the rural poverty

for 1987-88 at 221 million (37.6 per cent) and urban poverty at 81 million (or 38.9 per cent) giving an all-India poverty level of 302 million (about 38 per cent). The Planning Commission's earlier estimates were lower by 25 million for rural areas, by 39 million for urban areas and by 64 million for all-India. However, the Expert Group estimates themselves are considerably lower than those made by Minhas et al in respect of rural areas by as much as 63 million; for the urban areas the Expert Group derives a higher estimate at 80.8 million as against 77.5 million by Minhas et al. These differences cannot be entirely explained by the state-specific and all-India poverty lines derived by the Expert Group for rural areas which are considerably lower than those derived by not only Minhas et al but also by the Planning Commission in earlier periods. The following table is self-explanatory in regard to the inconsistencies in this respect which require a closer study:

RURAL POVERTY LINE

For the Year and at the Price Level of	Planning Commis- sion (Rs per capita per month)	Minhas et al	Expert Group
1973-74	49.09	49.09	49.09
1977-78	62.10	57.62	55.39
1983-84	101.70	93.16	87.93
1987-88	131.60	122.63	112.88

A major revelation in the Expert Group estimates of poverty is that in 1987-88 the proportion of the people in poverty was more in urban areas at about 39 per cent as against 37.6 per cent in rural areas. According to the Group, between 1983 and 1987-88 poverty incidence declined only fractionally in urban areas (from 41.7 per cent to 39 per cent) whereas it fell rather sizeably in rural areas (from 43.8 per cent to 37.6 per cent) which is partly explained on the face of it by a sharper rise in the cost of living in urban areas (40.7 per cent increase in the urban poverty line) than in the rural areas (28.4 per cent increase in the rural poverty line).

Notes

- 1 The Working Group comprised D R Gadgil, B N Ganguli, P S Lokanathan, M R Masani, Ashoka Mehia, Pitambar Pant, V K R V Rao, Shriman Narayan and Anna Saheb Sahasrabudhe.
- 2 See also Gupta (1989). Interestingly, Sukhamoy Chakravarty thought that the norm of Rs 20 at 1960-61 prices was for rural and Rs 25 per month for urban areas [Chakravarty 1987: 30].
- 3 The relevant ratios for food items in total ex-

penditure are given in Table B (in percentages).

- 4 Only a passing reference to it was contained in the Fourth Five-Year Plan (1969-74) thus: "If the pattern of inequality in consumption were the same as observed in 1967-68, the second poorest decile of the population would have a per capita consumption level (valued at 1968-69 prices) of about Rs 320 per annum or about Rs 27 per month by the end of the period. This would be equivalent to the consumption level of Rs 15 per month in terms of 1960-61 prices, which is appreciably below Rs 20 per capita per month, which was deemed a minimum desirable consumption standard" (p 34). Describing as a remarkable document (mentioned above) which Pitambar Pant pioneered in the PPD, Chakravarty gives an explanation for the neglect: "...it is probably one of the first attempts in a non-socialist developing country to work out a perspective for poverty eradication. However, because of the disastrous harvest failures in 1965 and 1966, Pant's base level assumption turned out to be way off-mark, and details of this particular exercise were almost completely forgotten even within the Planning Commission itself. The document was never officially published, but an edited version was printed in the mid-70s in a non-official publication after an Approach document prepared for the Fifth Five-Year Plan had for the first time put the problem of poverty eradication in the foreground of political discussion" [Chakravarty 1987: 31]. The same set of papers including this one were also published as a special volume in *Sankhya* (1974). Though the Fourth Plan refers to inequality in the distribution of consumption in terms of fractile or decile groups, there was no reference to it in the Fourth Five-Year Plan Model [Jadhav and Ray 1989; also Gupta 1989]. For the first time, the Fifth Plan Model introduced the notion of a minimum standard of living for the lowest 30 per cent of the population; it was translated into a minimum consumption expenditure of Rs 20 at 1960-61 prices per capita per month (which worked out to a monthly per capita consumption of Rs 36.64 in the rural areas and Rs 39.64 in the urban areas at 1971-72 prices) [Planning Commission 1973].
- 5 This was when D T Lakdawala was the vice-chairman of the Planning Commission. See also Gupta (1989: 181).
- 6 On an earlier occasion also the government's claim regarding sizeable reduction in the incidence of poverty came to be severely questioned [Sundaram and Tendulkar 1983; and Raj Krishna 1983].

TABLE B: SHARE OF FOOD ITEMS IN TOTAL HOUSEHOLD EXPENDITURE

Year	Rural		Urban	
	Above Poverty*	Below Poverty*	Above Poverty*	Below Poverty*
1977-78	61.6	80.3	56.5	75.2
1983-84	66.2	78.9	57.5	74.2
1986-87	66.9	79.1	55.8	75.7
1987-88	61.1	75.8	54.2	73.7

* Poverty lines as derived by the Planning Commission.

Source: Hashmi (1990).

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Table 1: Estimates of Poverty: A Synoptic View

Sl No	Author	Poverty Norm Adopted/Derived	Year for Which Estimated	Proportion of Population in Poverty		
				Rural	Urban	All-India
(1)	(2)	(3)	(4)	(5)	(6)	(7)
1	Harold H Mann (1948) See K S Krishnaswamy (ed) (1990)	Not available	1918 and 1948	40.0	—	—
2	H F Lydall (1960) See K S Krishnaswamy, <i>ibid</i>	Monthly income of less than Rs 20 per capita	1955-56	—	—	44.0
3	P D Ojha (1969)	(i) 2,250 calories per capita per day for a 'reference' man to be derived from the entire diet comprising cereals, pulses, sugar, fruits, meat, eggs, etc. In terms of foodgrains (cereals and pulses), 1,500 calories for urban areas (66 per cent of the total calorie requirements) and 1,800 calories for rural areas (80 per cent of the total). Corresponding foodgrains consumption were: 432 grammes and 518 grammes per capita per day, respectively. Based on the 16th Round of the NSS for 1960-61 (July-August), deficiencies in foodgrains consumption against these norms in different size groups were used to derive the proportion of people in poverty.	1960-61	51.8 (184)	7.6 (6)	44.4 (190)
		(ii) An over-reporting of about 26.4 per cent was found in aggregate consumption as per the NSS data compared with the estimated availability for household consumption; adjustments for this were made in respect of each consumer expenditure bracket.	1967-68	70.0 (289)	May have further increased since 1960-61 though the extent of urban poverty found limited	—
		(iii) For 1967-68, an index of poverty has been worked out only for rural areas by deflating the estimated consumption expenditure at current prices by the wholesale foodgrains price index.				
4	B S Minhas (1969)	Taking the clue from the distinguished working group which recommended Rs 240 (at 1960-62 prices) per capita per year as a bare minimum and on the basis of rough interpolations of the NSS data, "a lower bound on the number of people below the minimum level of living during the past 10 years and similar projections for the future based on the long-term perspective in the Fourth Plan Draft, have been worked out". Only all-India figures were worked out. Method of deflation was not known; estimations were based on rough interpolations of the actual NSS consumer expenditure data.	1957-58	—	—	58.0 (238)
			1960-61	—	—	54.0 (235)
			1967-68	—	—	48.0 (247)
			1973-74	—	—	39.0 (232)
			1980-81	—	—	27.0 (186)

(Contd)

Sl No	Author	Poverty Norm Adopted/Derived	Year for Which Estimated	Proportion of Population in Poverty		
				Rural	Urban	All-India
(1)	(2)	(3)	(4)	(5)	(6)	(7)
5	B S Minhas (1970)	(i) Two alternative estimates for the rural sector were made:	1956-57	I 65.0 (215)	II 52.4 (173)	—
			1957-58	63.2 (212)	50.2 (169)	—
		I Taking Rs 240 per capita per annum as the minimum standard of private consumption recommended by the distinguished working group in July 1962, and	1960-61	59.4 (211)	46.0 (164)	—
			1961-62	56.4 (206)	43.6 (159)	—
		II At a somewhat lower level of Rs 200 per capita per year at 1960-61 prices.	1963-64	57.8 (221)	44.2 (169)	—
		(ii) On the basis of linear interpolations of the NSS sizewise consumption data, lower bounds on the numbers of people below the poverty line (on two alternative definitions) have been worked out for many past years.	1964-65	51.6 (202)	39.3 (154)	—
			1967-68	50.6 (210)	37.1 (154)	—
		(iii) The 1960-61 minimum consumption was updated/backdated with the help of national income deflators.				
	V M Dandekar and N Rath (1971)	(i) Minimum calorie requirements from both foodgrains and substitutes and other food items of 2,250 calories for rural as well as urban households.				
		(ii) As per the NSS consumer expenditure data for 1960-61, Rs 170 per capita annual (Rs 14.2 per capita per month) for rural households and Rs 271 per capita annual (Rs 22.6 per capita per month) expenditures were essential to give a diet adequate at least in respect of calories.	1960-61	33.12	48.64	—
		(iii) In deference to the recommendations of the distinguished study group (which recommended a per capita monthly consumer expenditure of Rs 20 at 1960-61 prices as a national minimum), the Dandekar-Rath study made an upward revision of the rural minimum to Rs 180 per capita per annum (Rs 15 per capita per month) and rounded off the urban minimum to Rs 270 per capita per annum (Rs 22.5 per capita per month).	1960-61	about 40.0	about 50.0	—
		(iv) The cost of minimum living also varied between rural and urban areas of different states. Applying for each state, the level of consumer expenditure at which a diet with 2,250 calories is reached separately for rural and urban areas, the Dandekar-Rath study arrived at the statewise estimates of the proportion and number of the rural and urban population living on inadequate diets in 1960-61; the all-India estimates given here are aggregations of state wise numbers.	1960-61	38.0 (135)	54.0 (42)	41 to 42.0 (175 to 180)
7	Pranab K Bardhan (1971)	(i) Given the distinguished study group recommendations the rural minimum should be somewhat lower than Rs 20. To be on the conservative side, Rs 15 per capita per month was taken as a first approximation. Updated for other years by the consumer price index numbers for agricultural labourers (1960-61=100) and	1960-61	38.0 (135)	—	—
			1964-65	45.0	—	—
			1967-68	53.0	—	—
			1968-69	54.0 (230)	—	—

(Contd)

Sl No	Author	Poverty Norm Adopted/Derived	Year for Which Estimated	Proportion of Population in Poverty		
				Rural	Urban	All-India
(1)	(2)	(3)	(4)	(5)	(6)	(7)
		NSS data on percentage of people by expenditure groups. Current values of goods worth Rs 15 at 1960-61 prices worked out to: 1960-61 : Rs 15.0 1964-65 : Rs 21.6 1967-68 : Rs 30.0 1968-69 : Rs 29.4				
		(ii) The well known estimates of W R Aykroyd (1951), along with subsequent modifications by the central government employees' Second Pay Commission (1957-59), suggest 2,700 calories and 55 grammes of protein for the 'adequate' diet ('adequate' to 'maintain' the various life processes but not at their peak levels) of an average Indian adult in moderate activity.	1960-61 1968-69	38.0 54.0	— —	— —
		(iii) Based on the NSS rural retail prices (averaged over months) for different consumption items, the estimated cost of the minimum diet at respective prices were: 1960-61 : Rs 14.0 1968-69 : Rs 28.0				
		(iv) Taking the Rs 15 per capita norm at all-India rural 1960-61 prices and applying the rural prices relevant for the bottom 40 per cent of rural population in each state, the costs of the minimum diet at state-specific prices have been worked out and incidence of rural poverty in each state at two points (1960-61 and 1967-68) have been presented.	1960-61 1967-68	38.0 53.0	— —	— —
8	V S Vyas (1971) Quoted in Mahendra Dev et al (1991)	Rs 180 for rural India and Rs 240 per capita per annum for urban India at 1960-61 prices.	1954-55 1960-61	45.5 63.2	45.5 38.5	— —
9	Ashok Rudra (1974)	Arguing that the origin of the figure of Rs 20 per capita per month at 1960-61 prices was a mystery, Rudra has constructed three alternative norms of minimum per capita consumption expenditure corresponding to three recommendations of normative dietary requirements: (1) Sukhatme; (2) FAO; and (3) Dr Patwardhan (as used by the Second Pay Commission). Moving from the value of minimum diet to value of food items and finally to total consumption expenditure, Rudra derived minimum consumption expenditure (per capita per month) at 1960-61 prices corresponding to the dietary requirements suggested above:	1960-61	Rudra argued that treating the minimum consumption expenditure as a poverty line and estimating the proportion of consumers who fall below the line was invalid, "for in counting the persons who cannot afford to buy a minimum diet, the diet itself has to be worked out separately for different areas and different communities, taking into account different availabilities and different food habits; then these different diets have to be valued differently for different areas by using different sets of local retail prices. ...For calculating what proportion of consumers cannot afford the minimum diet, it is not necessary to add to the value of minimum diet some figure representing expenditure on non-food items, as is customarily done. The National Sample Survey gives figures representing expenditures on different groups of consumer items for different expenditure groups and one can work out what proportion of people spend on food items less than the value of the minimum diet" (pp 287-288).		
		Alter-native	Rural	Urban		
		1	Rs 22.73	Rs 27.33		
		2	Rs 28.60	Rs 33.73		
		3	Rs 15.63	Rs 18.99		

(Contd)

Sl No	Author	Poverty Norm Adopted/Derived	Year for Which Estimated	Proportion of Population in Poverty		
				Rural	Urban	All-India
(1)	(2)	(3)	(4)	(5)	(6)	(7)
10	A Vaidyanathan (1974)	<p>(i) Rs 20 per capita per month at 1960-61 prices.</p> <p>(ii) For deflation, the NSS time series data on unit prices of major cereals for different classes of the population, similar data for other commodities available only in respect of the NSS 17th and 19th Rounds, and the official index of wholesale prices wherever the NSS data were not available, have been used.</p> <p>(iii) The linkage between consumption inequality and poverty levels, on the one hand and landholdings, family size and occupation, including inter-state variations, on the other, has been discussed.</p> <p>(iv) While the degree of inequality in real consumption declined appreciably during the 1960s, the NSS data also revealed a significant reduction in the average real consumption. Therefore, the proportion of poor people estimated wholly on NSS data showed an appreciable increase even though the degree of inequality in consumption declined.</p>	<p>NSS data</p> <p>1960-61 59.5 - -</p> <p>1964-65 60.4 - -</p> <p>1967-68 67.8 - -</p> <p>Official national income series along with the pattern of inequalities revealed by the NSS</p> <p>1960-61 58.8 - -</p> <p>1964-65 56.9 - -</p> <p>1967-68 57.8 - -</p>			
11	Montek S Ahluwalia (1978 and 1986)	<p>(i) A consumer expenditure level of Rs 15 per person for 30 days at 1960-61 prices (taking guidance from Pranab K Bardhan (1971), Dandekar and Rath (1971) and the Planning Commission's distinguished study group (1962)).</p> <p>(ii) For deriving equivalent poverty lines at prices of different years, the consumer price indices for agricultural labourers have been used (a method adopted by Bardhan (1971)).</p> <p>(iii) Estimates for all-India have been undertaken at two levels: the first estimate (I) obtained by applying the all-India poverty line for various years to the NSS consumption distribution for rural India; and the second estimate (II) obtained as a weighted sum of the estimated percentages of poverty in individual states, derived from the NSS size distributions of consumption for individual states and the state-specific poverty lines.</p>	<p>I II</p> <p>1956-57 54.1 - - -</p> <p>1957-58 50.2 53.4 - -</p> <p>1958-59 46.5 - - -</p> <p>1959-60 44.4 48.7 - -</p> <p>1960-61 38.9 42.0 - -</p> <p>1961-62 39.4 42.3 - -</p> <p>1962-63 - - - -</p> <p>1963-64 44.5 49.1 - -</p> <p>1964-65 46.8 50.4 - -</p> <p>1965-66 53.9 51.1 - -</p> <p>1966-67 56.6 57.4 - -</p> <p>1967-68 56.5 57.9 - -</p> <p>1968-69 51.0 53.5 - -</p> <p>1969-70 - - - -</p> <p>1970-71 47.5 49.1 - -</p> <p>1971-72 41.2 - - -</p> <p>1972-73 43.1 - - -</p> <p>1973-74 46.1 47.6 - -</p> <p>1977-78 39.1 - - -</p>			
12	Nikhilesh Bhattacharya, Dipankor Coondoo, Pradip Maiti, and Robin Mukherjee (1990)	For periods covering NSS Rounds 12 (1956-57) to 18 (1963-64), the study has used the above Ahluwalia (1978) results. For subsequent periods, the study has used a methodology which differs slightly from that of Ahluwalia. Ahluwalia obtained the interpolated estimates necessary for the computations after graduating the Lorenz curve for per capita expenditure (PCE). Instead this study has used linear interpolation on the unsmoothed Lorenz curve for PCE to get the results	<p>1964-65 45.7 - -</p> <p>1965-66 48.7 - -</p> <p>1966-67 56.0 - -</p> <p>1967-68 55.7 - -</p> <p>1968-69 50.5 - -</p> <p>1969-70 49.0 - -</p> <p>1970-71 45.2 - -</p> <p>1971-72 - - - -</p> <p>1972-73 46.4 - -</p> <p>1973-74 46.1 - -</p> <p>1977-78 40.2 - -</p> <p>1983-84 32.8 - -</p>			

(Contd.)

Sl No	Author	Poverty Norm Adopted/Derived	Year for Which Estimated	Proportion of Population in Poverty		
				Rural	Urban	All-India
(1)	(2)	(3)	(4)	(5)	(6)	(7)
13	Bhaskar Dutta (1980)	(i) Rupees 15 per capita per month at 1960-61 prices for rural areas in line with the poverty line adopted by Dandekar and Rath (1971) and Bardhan (1973), and	1960-61	38.03	40.40	—
			1961-62	39.30	39.36	—
			1963-64	44.50	42.52	—
			1965-66	47.41	46.43	—
		(ii) Rs 20 per capita per month at 1960-61 prices for urban areas on the assumption that the rural-urban price differential for the poor in 1960-61 was approximately 20 per cent and that there were certain imposed and induced needs of urban areas which were not reflected in the rural-urban price differential. Thus the sum of Rs 18 has been adjusted upwards to Rs 20. The sectoral poverty lines have been worked out at current prices using the consumer price index for agricultural labourers in respect of rural areas and the consumer prices index for industrial workers for urban areas.	1967-68	56.20	48.32	—
			1968-69	50.40	45.53	—
			1969-70	49.20	44.40	—
			1970-71	45.40	41.50	—
			1973-74	44.30	38.70	—
		(iii) The study has also worked out indices of richness in rural and urban areas.				
14	D S Tyagi (1982)	There were sufficient reasons to believe that the NSS estimates of levels of consumption were an overestimation in the sixties which got moderated over the years. The consumer price index for agricultural labourers might have also inflated the rise in prices. If these adjustments are made, then from the existing estimates of incidence of poverty at 47.5 per cent for 1970-71 and 46.0 per cent for 1973-74, at least 10 per cent has to be subtracted.				
15	V M Dandekar (1986)	(i) Dandekar-Rath's original norm of Rs 171 per capita annual expenditure for satisfying the nutritional requirements of 2,250 calories per day per person from the entire food basket for rural areas has been repeated.	1960-61	33.12	—	—
		(ii) Comparable estimates of per capita per month expenditure at respective annual prices (based on the rise in the original index of wholesale prices) are:				
			Apr 1960-Mar 1961: Rs 14.25	1960-61	33.12	—
			Jul 1971-Jun 1972: Rs 32.66	1971-72	46.0	—
			Oct 1972-Sept 1973: Rs 38.61	1972-73	53.9	—
			Jul 1977-Jun 1978: Rs 56.06	1977-78	51.9	—
			Jan 1983-Dec 1983: Rs 93.29	1983	48.9	—
		Poverty line of Rs 32.66 for 1971-72 has been revised with the help of the average index numbers of wholesale prices (1970-71=100)				
		(iii) Based on the revised wholesale price index with the help of weights obtained from the consumption basket of the rural poor. (Poverty lines are (in rupees): 32.66, 39.08, 54.42 and 88.35, respectively)	1971-72	46.0	—	—
			1972-73	54.9*	—	—
			1977-78	49.5	—	—
			1983	44.4	—	—
		(* Described by Dandekar that 1972-73 estimate appeared on the higher side.)				

(Contd)

Sl No	Author	Poverty Norm Adopted/Derived	Year for Which Estimated	Proportion of Population in Poverty		
				Rural	Urban	All-India
(1)	(2)	(3)	(4)	(5)	(6)	(7)
16	John W Mellor and Gunvant M Desai (1986)	The study has filled in some gaps in the annual series of rural poverty in Ahluwalia (1978, 1986). The study examines the statistical findings of a close association (negative or positive) between rural poverty incidence on the one hand and agricultural performance food prices, agricultural population and direct or indirect poverty alleviation programmes, on the other.	Per cent change in the incidence of rural poverty in India			
			1956-57 to 1960-61	Down from 54 to 39 per cent		
			1960-61 to 1966-67	Up from 39 to 57 per cent		
			1966-67 to 1971-72	Down from 57 to 41 per cent		
			1971-72 to 1974-75	Up from 41 to 50 per cent		
			1974-75 to 1977-78	Down from 50 to 39 per cent		
17	L R Jain, K Sundaram and S D Tendulkar (1988)	The study has covered 56 of the 62 agroclimatic regions. First, the study has derived the state-specific poverty lines. Starting with an all-India rural poverty line of Rs 15 per capita per month at 1960-61 prices, this is first adjusted for inter-state differentials for the base year on the basis of the Fisher price index for each state compared to all-India as base and applicable to 40-60 per cent fractile group of the rural population. The resultant poverty lines at 1960-61 prices are adjusted for price changes between 1960-61 and 1972-73 by reference to state-specific consumer price index for agricultural labourers. Each state-specific poverty line at 1972-73 prices is assumed to be applicable to all the regions within a state.	Head-Count Ratio (1972-73) (in per cent)			
			Minimum	11.04	—	—
			Maximum	85.02	—	—
			56 Regions			
			(Mean)	47.33	—	—
			All-India	47.03	—	—
18	S Mahendra Dev (1988)	(i) Using the norm for rural poverty derived by Pranab Bardhan (1973) for the year 1960-61 (at Rs 15 per capita per month) and adjusting them by the corresponding state-specific consumer price index for agricultural labourers (1960-61=100) for the years 1964-65, 1972-73, 1977-78 and 1983 for which the NSS consumer expenditure surveys were available. The statewise poverty lines thus determined are combined with the data on the size distribution of consumer expenditure per capita per month to derive the incidence of poverty in each state.	All-India Rural (Weighted average)			
			1964-65	50.44	—	—
			1972-73	50.36	—	—
			1977-78	44.20	—	—
			1983	35.90	—	—
		(ii) Using the coefficient of variation (unweighted and weighted), the study revealed a steady increase in inter-state disparity in the incidence of poverty.				
19	S Mahendra Dev, Kirit S Parikh and M H Suryanarayana (1990)	(i) Using a poverty line of Rs 15 at 1960-61 prices for rural India and the corresponding poverty lines for rural areas of different states by applying the consumer price index numbers of agricultural labourers following Bardhan's methodology (February 1973), state-specific incidence of poverty has been worked out for all years from 1961-62 through 1986-87.	Statewise estimates are presented in Table 2			
		(ii) The study does detailed probing into the demographic, social and occupational characteristics of the rural poor.				

(Contd)

Sl No	Author	Poverty Norm Adopted/Derived	Year for Which Estimated	Proportion of Population in Poverty		
				Rural	Urban	All-India
(1)	(2)	(3)	(4)	(5)	(6)	(7)

20 Planning Commission
(1979, 1981, 1986
and 1991)
For reference see also the
text

- (i) The Task Force on Projections of Minimum Needs and Effective Consumption Demand, set up by the Planning Commission in 1977, defined the poverty line as that at which the per capita consumption expenditure class having a daily calorie intake of 2,400 in rural areas and 2,100 in urban areas. Calorie norms were estimated after taking into account the age, sex and occupational differentials in rural and urban populations.
- (ii) Updating of the 1973-74 poverty line has been done differently at different times, though always using the same deflator for both rural and urban areas. Similarly, for state wise estimation, the same all-India poverty lines for rural and urban areas have been used. For the Sixth Plan exercises, the wholesale price index was used, whereas since the Seventh Plan, particularly for years, 1983-84 and 1987-88, the poverty line has been updated using the CSO's private consumption deflator.
- (iii) The Planning Commission has always been making a *pro rata* upward adjustment of the NSS size distribution of private consumption to correspond to the National Accounts (CSO) level of total private consumption. The estimates of total consumption expenditures based on NSS data were found to be lower as compared to the CSO figures by about 5 to 12 per cent in the 1970s and by more than 21 per cent in 1983-84 and by more than 27 per cent in 1987-88. Thus, for 1987-88, for instance, the per capita total expenditure of each fractile group has been increased by 27.5 per cent before applying the estimated poverty line to the observed size distribution of the NSS.

- (iv) The poverty lines thus worked out were:

Prices of	Rural	Urban				
1973-74	Rs 19.09	Rs 56.64	1973-74	54.1 (244)	41.2 (47)	51.5 (292)
1976-77	Rs 61.80	Rs 71.30				
1977-78	Rs 65.0 (Rs 61.05)*	Rs 75.00 (Rs 81.00)*	1977-78	51.2 (253)	38.2 (54)	48.3 (307)
1983-84	Rs 101.80	Rs 117.50	1983-84	40.4 (222)	28.1 (50)	37.4 (271)
1987-88	Rs 131.80	Rs 152.13	1987-88	33.4 (196)	20.1 (42)	29.9 (238)

* Based on the 1962 working group norm of Rs 20 per capita per month minimum national expenditure at 1960-61 prices.

(Statewise estimates are presented in Table 6)

(Contd)

Sl No	Author	Poverty Norm Adopted/Derived	Year for Which Estimated	Proportion of Population in Poverty		
				Rural	Urban	All-India
(1)	(2)	(3)	(4)	(5)	(6)	(7)
21	S P Gupta and K L Datta (1984)	Taking the Planning Commission's calorie norms and the poverty lines (Rs 49.09 for rural and Rs 54.64 for urban) at 1973-74 prices, the wholesale price index has been used to update the expenditure cut-off points given at 1973-74 prices; no distinction is made between rural and urban areas for deflation purposes. (Figures within brackets are millions of people.)	1960-61	56.8 (202)	47.9 (37)	- (240)
			1961-62	56.2 (204)	45.9 (37)	- (241)
			1963-64	53.8 (203)	43.4 (37)	- (241)
			1964-65	47.4 (183)	42.9 (38)	- (221)
			1965-66	49.9 (196)	48.0 (44)	- (240)
			1966-67	49.2 (197)	44.5 (42)	- (239)
			1967-68	45.2 (185)	41.5 (41)	- (225)
			1968-69	48.4 (202)	39.4 (40)	- (242)
			1969-70	46.8 (199)	37.3 (39)	- (238)
			1970-71	47.8 (207)	36.7 (40)	- (247)
			1972-73	50.5 (228)	40.1 (47)	- (275)
			1973-74	47.6 (220)	40.7 (49)	- (269)
			1977-78	51.5 (255)	38.2 (54)	- (309)
22	(a) B S Minhas, L R Jain, S M Kansal and M R Saluja (1987)	(i) Accepting the definition of poverty line adopted by the Planning Commission at the per capita per month expenditure cut-off point of Rs 49.09 for rural and Rs 56.64 for urban India at 1973-74 prices, these studies have adopted elaborate methods of constructing separate consumer price indices based on rural retail prices and with appropriate weighting diagrams for (a) the entire rural population (CPIR), and (b) the middle rural population considered relevant for computing the rural poverty index (CPIMR) as also (c) a new urban consumer price index (CPICU) has been constructed by combining the industrial workers' and the urban non-manual employees' indices by attaching proper weights to the two indices. Starting with the above poverty lines and using the newly constructed rural and urban price indices, the corresponding poverty lines for six different NSS periods have been worked out thus (rupees per capita per month):	1987 Study			
			1970-71	53.4 (231)	46.4 (50)	52.0 (281)
			1972-73	57.4 (258)	45.4 (53)	54.9 (311)
			1973-74	56.4 (258)	49.5 (60)	54.9 (314)
			1977-78	51.5 (253)	42.4 (60)	49.5 (314)
			1983	45.3 (243)	36.8 (65)	43.2 (313)
	(b) B S Minhas and L R Jain (1991)		1991 Study: Direct Estimate			
			1970-71	57.3 (252)	45.9 (50)	55.1 (302)
			1983	49.0 (267)	38.3 (66)	46.5 (333)
			1987-88	44.9 (261)	36.5 (75)	42.7 (336)
	(c) B S Minhas, L R Jain and S D Tendulkar (1991)	1987 Study: NSS Round Rural Urban July 1970- June 1971: 31.52 39.28 Oct 1972- Sept 1973: 40.75 46.29 Oct 1973- June 1974: 49.09 56.64 July 1977- June 1978: 55.18 67.66 Jan 1983- Dec 1983: 89.00 109.43	1991 Study: Alternative All-India Estimate (with comprehensive coverage of the population and state-specific price variations taken into account)			
			1970-71	58.8 (258)	46.2 (50)	56.3 (308)
			1983	50.8 (277)	40.2 (69)	48.2 (346)
			1987-88	48.7 (284)	37.8 (77)	45.9 (361)

(Contd)

Sl No	Author	Poverty Norm Adopted/Derived	Year for Which Estimated	Proportion of Population in Poverty		
				Rural	Urban	All-India
(1)	(2)	(3)	(4)	(5)	(6)	(7)
1991 Study						
		1970-71	33.01	39.04		
		1983	93.16	111.25		
		1987-88	122.63	158.31		
	(ii) At the second stage (1990 and 1991 studies), Minhas et al have constructed state-specific cost of living indices and the inter-state price differentials (relative to all-India SVIR and SVIU) relevant for the poverty groups (referred to as the middle-range of the population) in rural and urban areas and built state-specific poverty lines for the six NSS Round periods cited above. With their help, estimates of the incidence of rural and urban poverty in each state and all-India (direct as well as alternative derived from state totals) have been worked out.					
23	N Kakwani and K Subbarao (1990)	(i) Following the Planning Commission, a round figure of Rs 50 per capita per month as a first poverty line corresponding roughly to the per capita daily requirement of 2,400 calories in rural areas and Rs 40 per capita per month also for rural areas equivalent to 80 per cent of Planning Commission's poverty line (with the households falling under the latter category described as ultrapoor). The ultra poor cut-off point of Rs 40 per month corresponds closely to the poverty line used by Bardhan (1970) and Dandekar and Rath (1971) which was Rs 15 at 1960-61 prices and which at 1973-74 rural prices was equivalent to the per capita expenditure of Rs 42.50	Estimates of Head-Count Ratio			
			1972-73	60.5 (265)	—	—
			1973-74	60.5 (269)	—	—
			1977-78	56.3 (269)	—	—
			1983	48.4 (255)	—	—
		(ii) Using Bhattacharya and Chatterjee (1974) statewide price relatives for 1963-64 and the movements in the consumer price index for agricultural labourers available at the state level, state-specific poverty lines at current prices have been worked out for four reference periods: 1972-73, 1973-74, 1977-78 and 1983.	Estimates of the Ultra Poor			
			1972-73	42.1 (184)	—	—
			1973-74	41.3 (183)	—	—
			1977-78	37.9 (181)	—	—
			1983	30.3 (160)	—	—
24	(a) L. R Jain and Suresh D Tendulkar (1990)	(i) Two sets of exogenously specified all-India poverty lines have been used: (I) first, the poverty line used by the Planning Commission, namely, monthly per capita total expenditure of Rs 49.09 and Rs 56.64 for rural and urban areas, respectively, at 1973-74 prices, and (II) second, alternative monthly per capita total expenditure of Rs 15 and Rs 18 for rural and urban areas, respectively, at 1960-61 prices.	I	As per the Planning Commission Norms		
			1970-71	(a) Direct all-India estimate		
			1983	Not presented in the articles		
	(b) Suresh D Tendulkar and L. R Jain (1991)			(b) Weighted aggregates for 20 states		
			1970-71	57.33	45.89	—
			1983	49.02	38.33	—
	(c) Suresh D Tendulkar (1992)	(ii) The study has allowed for state-specific price differential relative to all-India at a point of time as well as state-specific changes over time in the consumer price index applicable to the poverty population in deriving state-specific poverty lines, for 1970-71 and 1983.	II	Alternative Norm		
				(a) Direct all-India estimate		
			1970-71	45.29	37.06	43.65
			1983	37.54	28.77	35.42
				(b) Weighted aggregates for 20 states		
			1970-71	47.1 (206)	37.2 (41)	45.1 (247)
			1983	39.3 (214)	30.2 (53)	37.1 (267)
			1987-88	36.2 (211)	28.3 (58)	34.2 (269)

(Contd)

Table 2: Percentage of Rural Population in Poverty by States

States	Montek S Ahluwalia												S Mahendra Dev, M H Suryanarayana and K S Parikh												
	1957	1959	1960	1961	1963	1964	1965	1966	1967	1968	1970	1973	1961	1963	1964	1965	1966	1967	1968	1969	1970	1972	1973	1977	1986
	-58	-60	-61	-62	-64	-65	-66	-67	-68	-69	-71	-74	-62	-64	-65	-66	-67	-68	-69	-70	-71	-73	-74	-78	-87
Andhra Pradesh	53.5	48.8	50.1	47.2	45.6	41.5	45.4	47.9	46.0	47.3	41.0	39.8	46.8	44.6	40.9	44.2	49.4	48.4	45.0	44.9	40.0	42.0	37.7	30.2	16.6
Assam	28.0	31.4	25.6	29.4	24.4	24.2	31.3	46.8	38.4	47.3	35.3	39.3	27.7	23.2	20.2	28.4	44.9	39.9	48.4	32.3	31.5	35.8	36.5	38.0	22.0
Bihar	59.7	55.7	41.5	49.9	52.3	54.3	59.4	74.4	70.9	59.4	59.0	58.4	49.7	52.4	52.9	58.0	74.1	70.8	59.7	57.0	58.5	54.7	56.8	55.0	41.2
Gujarat	*	41.5	31.6	39.7	45.7	49.8	50.7	54.1	50.8	42.8	43.8	35.6	36.6	45.8	50.6	49.8	52.3	49.9	41.4	45.7	41.3	40.1	20.0	31.5	22.2
Haryana	41.3	48.9	39.1	35.4	50.5	55.1	63.9	59.5	56.9	58.8	47.2	46.9	n.a	n.a	25.2	21.7	21.7	30.2	26.8	26.5	27.8	14.5	24.5	19.9	12.2
Karnataka	59.6	62.3	57.8	50.3	52.8	60.7	70.7	67.1	63.4	64.6	62.0	49.3	34.3	50.3	54.3	63.5	58.2	55.6	59.6	53.4	45.0	38.5	48.0	42.2	30.3
Kerala	57.7	46.4	43.8	40.0	43.6	42.1	47.2	58.3	62.3	56.0	52.9	52.3	39.6	42.6	40.5	46.8	57.7	61.0	56.0	54.8	52.6	52.0	53.1	51.6	33.5
Madhya Pradesh	*	54.5	48.4	43.6	48.2	59.1	57.8	63.2	57.2	54.8	46.6	49.8	42.8	47.4	60.6	55.2	62.9	55.2	54.4	52.2	44.2	56.3	46.8	54.0	32.8
Maharashtra	66.6	63.4	62.4	49.3	60.0	61.9	62.1	64.2	64.7	71.2	65.0	58.0	48.3	59.0	60.7	61.7	64.5	63.9	70.2	65.9	60.5	66.1	58.0	61.5	40.1
Orissa	28.0	24.2	18.8	22.3	29.4	26.5	26.5	29.5	33.9	24.0	23.6	23.0	n.a	n.a	25.9	30.8	28.7	32.1	17.4	24.1	16.4	14.4	16.2	10.7	7.6
Punjab	33.4	n.a	32.3	33.0	32.6	31.8	30.8	37.1	35.9	41.4	41.8	29.8	33.6	31.9	29.7	29.1	37.2	34.6	38.8	40.6	39.1	32.2	27.6	24.1	16.9
Rajasthan	67.8	64.4	53.9	51.0	52.0	57.4	59.5	62.7	58.1	60.0	57.3	48.3	50.5	51.6	57.4	59.4	63.6	58.5	61.0	62.3	58.0	46.5	46.5	48.8	31.3
Tamil Nadu	52.3	36.7	37.9	35.4	56.6	53.7	47.1	55.2	60.2	46.4	40.6	47.3	34.8	55.7	53.2	46.7	55.0	61.9	46.9	49.5	40.3	39.7	47.5	38.6	28.2
Uttar Pradesh	62.3	61.4	40.4	58.3	63.3	64.0	56.5	64.3	80.3	74.9	70.1	66.0	62.2	63.8	64.3	54.9	63.8	80.6	75.4	67.5	69.5	63.9	66.1	62.1	35.7
West Bengal	53.4	48.7	42.0	42.3	49.1	50.4	51.1	57.4	57.9	53.5	49.1	47.6	38.2	45.3	45.7	47.2	56.1	55.8	50.5	49.1	45.4	42.9	44.9	40.2	25.6
All-India																									

Sources: M S Ahluwalia 'Rural Poverty in India: 1956-57 to 1973-74'; in *India: Occasional Papers*, Staff Working Paper (Washington, D.C.: World Bank, 1978), pp 1-92 and S Mahendra Dev, M H Suryanarayana and Kirit S Parikh, Rural Poverty in India: Incidence, Issues and Policies', IGIDR, June 1991.

Table 3: Trends in Head-Count Ratio and Poverty Gap Ratio for Poor and Ultra Poor by States, 1972-73 to 1983

States	For Rural Households										For Ultra Poor Households									
	Head-Count Ratio					Poverty Gap					Head-Count Ratio					Poverty Gap				
	1972-73	1973-74	1977-78	1983	1983	1972-73	1973-74	1977-78	1983	1983	1972-73	1973-74	1977-78	1983	1983	1972-73	1973-74	1977-78	1983	1983
Andhra Pradesh	56.4	53.7	43.6	30.2	30.2	16.4	14.8	11.6	6.7	6.7	37.5	31.7	25.1	14.5	14.5	9.2	10.9	5.8	2.9	2.9
Assam	59.6	54.9	62.1	43.7	43.7	13.4	13.0	13.9	8.3	8.3	28.6	26.8	30.1	17.9	17.9	4.9	5.8	5.0	2.7	2.7
Bihar	67.3	70.6	69.0	70.2	70.2	23.5	24.1	22.6	23.0	23.0	49.5	52.4	48.7	50.3	50.3	14.4	15.0	13.1	13.4	13.4
Gujarat	53.8	48.5	44.0	28.5	28.5	15.2	11.7	11.9	5.3	5.3	34.2	25.1	25.2	11.1	11.1	7.6	5.0	5.7	1.8	1.8
Haryana	23.2	37.7	31.1	20.8	20.8	4.6	9.1	7.2	4.0	4.0	10.8	18.6	14.3	8.5	8.5	1.9	3.6	3.0	1.4	1.4
Karnataka	52.5	60.0	54.0	42.6	42.6	15.3	18.5	17.2	12.1	12.1	33.1	42.5	37.7	27.0	27.0	8.3	10.2	10.2	6.4	6.4
Kerala	63.6	60.9	51.7	39.6	39.6	21.1	20.4	16.8	9.9	9.9	46.3	42.1	35.9	22.2	22.2	12.8	11.8	9.8	4.6	4.6
Madhya Pradesh	64.7	64.9	64.0	51.3	51.3	21.3	21.4	21.4	14.2	14.2	47.5	48.2	47.4	31.6	31.6	12.5	12.7	13.1	7.2	7.2
Maharashtra	75.4	61.9	66.8	48.2	48.2	26.6	19.0	22.4	12.7	12.7	56.3	40.6	48.8	28.3	28.3	15.9	10.0	13.4	5.9	5.9
Orissa	68.5	69.5	63.7	56.2	56.2	24.8	24.4	21.1	16.7	16.7	50.8	52.6	46.1	35.7	35.7	15.0	14.5	12.9	9.4	9.4
Punjab	22.6	30.0	19.0	15.7	15.7	4.8	6.6	4.2	2.9	2.9	11.2	14.4	7.7	6.2	6.2	2.0	2.8	1.9	0.9	0.9
Rajasthan	40.9	40.9	34.1	31.7	31.7	11.4	10.3	9.4	8.3	8.3	24.9	22.8	20.3	18.0	18.0	5.6	4.8	5.0	4.1	4.1
Tamil Nadu	61.6	61.8	61.1	56.3	56.3	18.7	18.8	19.8	18.1	18.1	43.1	39.8	43.5	39.1	39.1	10.8	10.0	11.4	10.5	10.5
Uttar Pradesh	58.3	60.4	52.5	49.4	49.4	17.8	17.0	14.6	13.6	13.6	37.9	41.2	32.0	31.1	31.1	9.3	8.7	7.1	7.1	7.1
West Bengal	75.6	77.6	73.4	67.9	67.9	29.8	31.1	27.1	23.3	23.3	61.1	62.5	56.5	48.6	48.6	20.3	20.9	17.0	14.1	14.1
All-India	60.5	60.5	56.3	48.4	48.4	19.5	18.8	17.5	15.8	15.8	42.1	41.3	37.9	30.3	30.3	11.3	10.9	9.9	7.3	7.3

Table 4: Sen's Poverty Index

States	1957	1959	1960	1961	1963	1964	1965	1966	1967	1968	1970	1973	1977	1986
	58	-60	-61	-62	64	-65	-66	-67	-68	-69	-71	-74	-78	-87
Audhra Pradesh	0.22	0.17	0.18	0.18	0.16	0.14	0.16	0.18	0.17	0.18	0.13	0.14	0.11	0.04
Assam	0.07	0.08	0.05	0.06	0.06	0.05	0.08	0.13	0.10	0.14	0.08	0.11	0.14	0.07
Bihar	0.29	0.23	0.15	0.19	0.21	0.22	0.25	0.41	0.37	0.26	0.25	0.24	0.22	0.16
Gujarat	0.15	0.12	0.12	0.12	0.16	0.17	0.20	0.22	0.20	0.16	0.15	0.10	0.11	0.07
Haryana													0.06	0.02
Karnataka	0.17	0.19	0.13	0.12	0.18	0.21	0.30	0.27	0.24	0.25	0.17	0.17	0.16	0.11
Kerala	0.29	0.29	0.25	0.21	0.21	0.29	0.33	0.31	0.28	0.31	0.29	0.20	0.16	0.06
Madhya Pradesh	0.27	0.19	0.17	0.14	0.17	0.15	0.17	0.26	0.29	0.24	0.21	0.20	0.20	0.12
Maharashtra		0.21	0.18	0.15	0.17	0.24	0.22	0.27	0.22	0.20	0.16	0.18	0.21	0.12
Orissa	0.32	0.28	0.31	0.20	0.26	0.26	0.26	0.27	0.28	0.33	0.30	0.23	0.25	0.15
Punjab													0.02	0.02
Punjab and Haryana	0.10	0.07	0.05	0.07	0.10	0.09	0.08	0.08	0.11	0.05	0.07	0.06		
Rajasthan	0.14	0.10	0.10	0.12	0.11	0.11	0.10	0.14	0.14	0.17	0.16	0.09	0.08	0.04
Tamil Nadu	0.34	0.30	0.24	0.22	0.21	0.23	0.25	0.26	0.24	0.25	0.22	0.17	0.19	0.11
Uttar Pradesh	0.22	0.13	0.14	0.12	0.23	0.21	0.17	0.23	0.25	0.17	0.13	0.15	0.14	0.10
West Bengal	0.26	0.21	0.14	0.20	0.26	0.26	0.22	0.27	0.40	0.33	0.31	0.31	0.25	0.13
All India	0.22	0.17	0.14	0.14	0.16	0.17	0.21	0.24	0.24	0.20	0.18	0.17	0.14	0.08

Table 5: Incidence of Poverty Based on the Planning Commission Procedure with or without *Pro Rata* Adjustment and Using New Consumer Price Indices along with Unadjusted NSS Distribution for All-India Rural (Also Latest Expert Group Estimates)

NSS Round	Survey Period	CSO's Impl. rate	Incidence of Poverty										Estimates of the Planning Commission's Expert Group on Poverty Estimation (1993)													
			With Adjustment fact % for NSS Data and with CSO Deflator		Without Adjustment but with CSO Deflator (Per Cent)		Unadjusted NSS Distri- bution with New Consumer Price Indices CPIMR and CPICU (Direct Estimate.) (Per Cent)		With No Adjustment to NSS Data and with Appropriate Price Deflators		Number of Persons (Million)		Head-Count Ratio (Per Cent)		Number of Persons (Million)											
			a		b		a		b		a		b		a		b									
			R ^a	L ^a	R ^b	L ^b	R ^a	L ^a	R ^b	L ^b	R	U	T	R	U	T	R	U	T							
			combined		combined		combined		combined		combined		combined		combined		combined		combined							
25th	July '0	71.94	57.0	42.9	54.2	29.3	62.8	49.8	60.0	32.5	53.4	46.4	52.0	28.1	58.8	46.2	56.2	25.9	50	30.9	—	—	—	—	—	
27th	Oct '2	84.03	57.4	46.0	55.0	31.2	59.4	44.4	56.9	32.3	57.4	45.4	54.9	31.1	—	—	—	—	—	—	—	—	—	—	—	
28th	Oct '3	100.00	52.6	45.8	51.2	29.7	50.4	49.5	54.9	31.8	56.4	49.5	54.9	31.8	—	—	—	—	—	—	—	—	—	—	—	
32nd	July '77 - June '78	123.38	51.5	38.4	49.6	30.8	58.6	44.9	55.5	35.2	51.5	42.4	49.5	31.4	—	—	—	—	—	—	—	—	—	—	—	
38th	Jan '83 - Dec '83	207.48	40.5	26.7	37.1	26.9	56.5	42.3	53.0	38.4	45.3	36.8	43.2	31.3	50.8	40.2	48.2	27.7	69	34.6	43.8	41.7	43.3	24.2	74	31.6
43rd	July '87	268.08	29.3	17.6	26.3	20.7	51.0	33.5	46.3	36.5	44.9	36.5	42.7	33.6	48.7	37.9	45.8	28.4	77	36.1	37.6	38.9	38.0	22.1	81	30.2

(29.9 (238))

(-) means not available a = In per cent b = Number of persons in million
 Note: Figures within brackets represent those officially released by the Planning Commission
 Source: Mishra et al (1987, 1991) and the Expert Group Report (1993)

Table 6. Number (in Lakhs) and Percentage of Population below the Poverty Line by States Separately for Rural and Urban Areas in 1972-73, 1977-78, 1983-84 and 1987-88: Officially Released Planning Commission Estimates

	1972-73						1977-78						1983-84						1987-88					
	Rural			Urban			Rural			Urban			Rural			Urban			Rural			Urban		
	No	Per	Cent	No	Per	Cent	No	Per	Cent	No	Per	Cent	No	Per	Cent	No	Per	Cent	No	Per	Cent	No	Per	Cent
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25
Northern Region																								
1 Haryana	18.4	21.5	5.6	29.9	24.0	23.1	22.0	23.2	7.9	32.5	29.9	25.2	16.2	15.2	5.5	16.9	21.7	15.6	13.5	11.7	4.7	11.7	18.2	11.6
2 Himachal Pradesh	5.1	15.5	0.3	12.5	5.4	15.1	10.2	27.8	0.5	17.2	10.7	27.0	5.8	14.0	0.3	8.0	6.1	13.5	4.4	9.7	0.1	2.4	4.5	9.2
3 Jammu and Kashmir	14.1	36.1	4.7	51.6	18.8	39.0	13.9	31.7	4.5	40.5	18.4	33.4	8.1	16.4	2.2	15.8	10.3	16.3	8.4	15.5	1.4	8.4	9.8	13.9
4 Rajasthan	105.0	47.5	13.8	39.3	123.8	46.0	82.7	33.5	20.8	33.9	103.5	33.6	105.0	56.3	21.2	26.1	126.2	34.3	80.6	26.0	19.0	19.4	99.5	24.4
5 Punjab	22.6	21.5	7.3	21.8	29.9	21.5	15.0	13.1	10.5	25.6	25.5	16.4	13.7	10.9	10.7	21.0	24.4	13.8	9.6	7.2	4.3	7.2	13.9	7.2
Central Region:																								
6 Madhya Pradesh	222.3	61.4	32.5	44.8	254.8	58.6	242.7	61.6	43.1	46.9	285.8	58.9	218.0	50.3	36.9	31.1	254.9	46.2	194.0	41.5	30.9	21.3	225.0	36.7
7 Uttar Pradesh	413.1	57.5	66.4	51.6	479.5	52.8	422.8	49.8	83.2	49.2	506.0	49.7	440.0	46.5	90.6	40.3	530.6	45.3	373.1	37.2	75.2	27.2	448.3	35.1
Western Region:																								
8 Gujarat	86.9	43.9	26.6	34.0	113.5	41.1	94.6	43.1	27.5	29.8	122.1	38.9	67.7	27.6	19.9	17.3	87.6	24.3	56.2	21.2	17.1	12.9	73.3	18.4
9 Maharashtra	191.5	53.9	56.7	34.3	248.2	47.7	234.1	60.4	62.1	31.4	296.2	50.6	176.1	41.5	55.9	23.3	232.0	34.9	166.9	36.7	47.2	17.0	214.1	29.2
Southern Region:																								
10 Andhra Pradesh	207.1	57.7	38.5	43.8	245.6	54.9	176.8	45.4	40.6	37.2	217.4	43.6	164.4	38.7	40.7	29.5	205.1	36.4	153.1	33.8	42.6	26.1	195.7	31.7
11 Karnataka	119.0	52.3	34.3	45.8	153.3	50.0	131.9	53.2	41.6	44.6	173.5	50.8	102.9	37.5	34.7	29.2	137.6	35.0	102.8	35.9	33.7	24.2	136.5	32.1
12 Kerala	106.4	57.8	19.2	52.7	125.6	56.9	94.1	47.4	23.0	53.2	117.1	48.4	55.9	26.1	15.6	30.1	71.5	26.8	37.4	16.4	11.6	19.3	49.0	17.0
13 Tamil Nadu	183.5	63.0	67.8	52.2	251.3	59.7	177.2	56.3	67.2	45.3	244.4	52.8	147.6	44.1	52.6	30.9	200.2	39.6	138.4	39.5	38.5	20.5	176.9	32.8
Eastern Region:																								
14 Bihar	291.2	55.8	25.9	43.4	317.1	54.5	330.5	57.8	33.7	44.8	364.2	56.3	329.4	51.4	36.1	37.0	365.5	49.5	300.3	42.7	36.1	30.0	336.5	40.8
15 Orissa	147.3	71.0	8.5	43.3	155.8	68.6	151.6	67.9	11.1	41.8	162.7	65.1	107.7	44.8	10.4	29.3	118.1	42.8	124.2	48.3	10.9	24.1	135.1	44.7
16 West Bengal	220.9	64.0	41.6	35.9	262.5	56.9	220.4	58.3	45.1	34.5	265.5	52.2	183.9	43.8	11.2	26.5	225.1	39.2	137.2	30.3	36.3	20.7	173.5	27.6
North-Eastern Region:																								
17 Assam	69.0	48.2	4.9	33.8	73.9	47.0	78.0	48.5	6.4	36.5	84.4	47.3	44.9	23.8	4.9	21.6	49.8	23.5	50.4	24.5	2.5	9.4	52.9	22.8
18 Manipur	2.4	24.7	0.4	24.2	2.8	24.7	2.9	29.2	0.8	26.8	3.7	28.7	1.3	11.7	0.6	13.8	1.9	12.3	..	..	..	..	..	..
19 Meghalaya	1.8	20.6	0.2	10.8	2.0	19.0	5.2	51.2	0.6	28.6	5.8	47.4	3.9	33.7	0.1	4.0	4.0	28.0	..	..	..	..	..	..
20 Tripura	6.2	42.6	0.3	18.7	6.5	39.9	10.6	64.5	0.6	27.5	11.2	60.5	4.6	23.5	0.5	19.6	5.1	23.0	..	..	..	..	..	..
21 Nagaland, Sikkim and all Union Territories	8.4*	37.6*	12.8*	26.7*	21.2*	30.2*	13.8	41.5	6.2	10.1	20.0	21.1	17.9	47.4	14.4	17.7	32.3	27.1	9.3	11.8	4.9	4.7	14.2	7.7
All-India	2442.2	54.1	473.3	41.2	2915.5	51.5	2531.0	51.2	537.0	38.2	3068.0	48.3	2215.0	40.4	495.0	28.1	2710.0	37.4	1959.7	33.4	417.0	20.1	2376.7	29.9

* Relates to Union Territories 1972-73. .. included in item 21

Source: S P Gupta (1989) and Lok Sabha Unstarred Question No 2338 answered on March 11, 1991 (for 1987-88).

Table 7: Number and Percentage of Population below the Poverty Line (Head-Count Ratios) by States Separately for Rural, Urban and Combined Areas
(Estimates by Minhas, Jain and Tendulkar)

Sl	States	Rural						Urban						Combined					
		Head Count Ratios (Per cent)			Numbers of Poor (million)			Head Count Ratios (Per cent)			Numbers of Poor (million)			Head Count Ratios (Per cent)			Numbers of Poor (million)		
		70-71	1983	87-88	70-71	1983	87-88	70-71	1983	87-88	70-71	1983	87-88	70-71	1983	87-88	70-71	1983	87-88
Northern Region:																			
1	Haryana	40.0	24.0	23.2	3.31	2.54	2.65	34.6	21.3	18.3	0.61	0.68	0.72	39.1	23.4	21.9	3.92	3.22	3.37
2	Himachal Pradesh	28.7	23.0	24.8	0.93	0.95	1.10	18.7	7.0	3.3	0.05	0.02	0.01	28.0	21.7	23.0	0.97	0.97	1.12
3	Jammu and Kashmir	27.7	29.3	33.1	1.04	1.44	1.78	26.7	11.8	11.0	0.23	0.16	0.18	27.5	25.5	28.0	1.27	1.60	1.95
4	Punjab	28.7	18.5	21.0	2.96	2.31	2.75	24.6	21.6	11.2	0.79	1.09	0.66	27.7	19.4	18.0	3.75	3.40	3.41
5	Rajasthan	54.7	42.0	41.9	11.62	11.96	13.10	46.0	37.2	41.5	2.09	2.98	4.07	53.2	41.0	41.8	13.71	14.94	17.17
6	Delhi	13.8	7.3	6.1	..	..	..	30.1	27.5	15.1	..	..	..	28.5	26.1	14.6	..	..	..
Central Region:																			
7	Madhya Pradesh	62.4	54.1	49.8	21.76	23.34	22.97	58.4	52.0	46.0	3.96	6.09	6.56	61.7	53.6	48.9	25.72	29.43	29.53
8	Uttar Pradesh	51.4	49.8	47.7	39.01	46.88	47.85	53.8	48.1	41.9	6.67	10.67	11.48	51.7	49.5	46.5	45.68	57.54	59.32
Western Region:																			
9	Gujarat	57.8	36.3	41.6	11.09	8.84	10.77	50.3	37.3	38.8	3.77	4.25	5.03	55.7	36.7	40.7	14.86	13.09	15.80
10	Maharashtra	55.8	54.0	54.2	19.35	22.81	24.13	40.1	40.4	35.6	6.30	9.57	9.68	50.9	49.1	47.2	25.64	32.38	33.81
Southern Region:																			
11	Andhra Pradesh	51.6	34.9	31.6	18.10	14.78	14.12	46.2	35.5	40.0	3.88	4.83	6.42	50.5	35.1	33.8	21.98	19.61	20.53
12	Karnataka	52.8	40.3	42.3	11.72	10.98	12.18	47.0	37.7	45.0	3.35	4.42	6.28	51.4	39.5	43.2	15.06	15.40	18.46
13	Kerala	69.0	47.2	44.0	12.34	10.10	9.99	62.4	47.8	44.5	2.16	2.46	2.65	68.0	47.3	44.1	14.51	12.56	12.64
14	Tamil Nadu	66.5	56.8	51.3	19.09	18.99	18.03	56.2	45.1	39.2	7.00	7.63	7.37	63.3	52.9	47.1	26.09	26.62	25.40
Eastern Region:																			
15	Bihar	68.8	70.4	66.3	34.89	44.94	45.79	54.3	51.3	56.7	3.06	4.95	6.66	67.3	67.9	64.9	37.95	49.89	52.45
16	Orissa	74.6	65.1	65.6	15.00	15.98	16.64	52.2	52.5	44.5	0.96	1.84	1.97	72.7	63.5	62.5	15.96	17.82	18.60
17	West Bengal	76.7	65.9	57.2	25.57	27.51	25.69	43.1	28.8	30.6	3.63	4.43	5.30	65.9	55.9	49.8	29.19	31.94	30.99
North Eastern Region:																			
18	Assam	50.4	49.2	53.1	6.72	9.24	10.95	19.0	21.0	11.4	0.25	0.47	0.30	47.6	46.2	48.3	6.96	9.71	11.25
19	Manipur	72.9	30.2	20.2	..	..	..	37.0	13.4	8.6	..	..	..	68.2	25.6	16.9	..	..	..
20	Tripura	54.5	44.3	24.2	..	..	..	21.4	19.3	12.7	..	..	..	51.1	41.5	22.9	..	..	..
21	17 States (Excl. Manipur, Tripura and Delhi)	..	..	..	254.48	273.58	280.47	..	..	..	48.75	66.54	75.33	..	..	..	303.22	340.12	355.80
22	20 States (1 to 20)	58.8	50.8	48.7	255.97	274.81	281.26	46.2	39.7	37.8	49.93	68.39	76.57	56.3	48.1	45.9	305.90	343.20	357.83
23	All-India (including others)	57.5	49.0	44.9	257.94	276.83	283.66	45.9	38.3	36.5	50.38	69.18	77.50	55.0	46.5	42.7	308.32	346.01	361.16

Source: B S Minhas et al (1991)

Table 8: Number (in Lakh) and Percentage of Poor based on Poverty Lines as Given by the Expert Group on Poverty (1993)

States	1973-74						1977-78						1983						1987-88					
	Rural			Urban			Rural			Urban			Rural			Urban			Rural			Urban		
	Num- ber (Lakh)	Per Cent	Num- ber (Lakh)	Per Cent	Num- ber (Lakh)	Per Cent	Num- ber (Lakh)	Per Cent	Num- ber (Lakh)	Per Cent	Num- ber (Lakh)	Per Cent	Num- ber (Lakh)	Per Cent	Num- ber (Lakh)	Per Cent	Num- ber (Lakh)	Per Cent	Num- ber (Lakh)	Per Cent	Num- ber (Lakh)	Per Cent	Num- ber (Lakh)	Per Cent
Andhra Pradesh	175.4	47.7	41.0	53.2	225.3	48.8	147.0	37.6	52.4	47.2	199.4	39.7	111.2	26.0	57.1	40.8	168.2	29.7	88.2	19.5	72.8	44.6	161.0	26.1
Assam	60.1	41.5	5.4	36.7	65.6	41.0	74.7	45.8	6.6	37.3	81.4	45.0	57.1	29.9	6.0	26.3	63.1	29.5	64.4	31.3	4.3	16.3	68.7	29.6
Bihar	330.5	61.9	33.7	52.4	364.2	60.8	354.6	61.5	40.5	52.9	395.1	60.5	405.2	62.7	51.0	51.3	456.2	61.2	367.3	52.2	69.7	57.9	437.0	53.0
Gujarat	73.1	35.8	2.4	41.3	107.5	37.4	73.3	33.1	33.3	34.7	106.5	33.6	50.0	20.3	36.5	31.4	86.5	23.8	45.5	17.2	42.1	31.7	87.6	22.0
Haryana	27.3	31.0	1.6	7.7	28.8	26.6	23.5	24.7	10.6	42.8	34.1	28.4	19.1	17.8	9.9	30.1	29.0	20.6	18.0	15.6	9.0	22.5	27.0	17.3
Himachal Pradesh	8.1	23.7	0.5	19.8	8.6	23.5	11.0	29.6	0.8	25.5	11.8	29.3	5.9	14.2	0.5	13.3	6.4	14.1	6.4	14.2	0.4	9.1	6.8	13.8
Jammu and Kashmir	17.0	42.0	5.0	51.7	22.0	43.8	17.1	38.4	5.9	52.3	23.0	41.2	11.0	22.1	5.1	36.7	16.2	25.3	12.8	23.6	4.8	29.7	17.6	25.0
Karnataka	131.3	56.4	43.2	53.7	174.5	55.7	123.2	49.3	51.5	54.3	174.7	50.7	103.6	37.5	54.3	45.1	157.9	39.8	98.5	34.4	69.7	50.0	168.2	39.5
Kerala	102.0	54.2	23.6	61.3	125.6	55.4	94.0	47.0	25.6	58.3	119.6	49.1	73.3	33.9	24.9	47.2	98.1	36.5	55.5	24.4	26.4	44.0	81.9	28.5
Madhya Pradesh	249.5	67.6	43.7	55.9	293.3	65.6	268.3	67.7	55.7	59.5	324.0	66.1	237.2	54.3	61.8	51.3	299.0	53.7	217.9	46.6	64.8	44.6	282.7	46.2
Maharashtra	194.6	53.3	65.2	37.3	260.0	48.1	233.0	60.0	70.0	34.9	302.9	51.3	175.0	41.0	83.6	34.4	258.6	38.6	173.4	38.1	89.5	32.1	263.0	35.8
Manipur	3.7	38.1	0.5	26.3	4.2	36.1	2.8	27.0	0.8	27.9	3.6	27.2	1.8	16.2	0.8	18.8	2.6	16.9	0.9	7.5	0.7	14.7	1.6	9.6
Orissa	145.1	68.6	11.4	51.8	156.5	67.0	166.4	74.1	12.7	46.8	179.1	71.2	167.3	69.1	15.7	43.2	183.0	65.7	157.9	61.5	16.9	37.4	174.9	57.9
Punjab	26.2	24.2	12.6	35.2	38.8	27.0	16.3	14.2	14.0	33.8	30.4	19.4	13.7	10.8	15.0	29.0	28.7	16.1	15.5	11.7	12.0	20.0	27.6	14.3
Rajasthan	94.8	41.9	26.8	51.5	121.6	43.7	84.3	33.7	28.1	45.0	112.4	36.0	91.1	31.5	32.2	39.0	123.2	33.1	90.6	29.2	40.1	40.9	130.7	32.0
Tamil Nadu	153.9	51.2	70.8	52.3	224.8	51.6	164.1	51.9	77.6	51.8	241.6	51.8	162.8	48.3	81.6	47.5	244.4	48.1	142.3	40.6	76.9	40.9	219.2	40.7
Uttar Pradesh	491.5	61.7	89.9	63.0	581.3	61.9	450.7	52.7	105.5	61.2	556.2	54.1	487.8	51.2	126.3	55.3	614.1	52.0	477.1	47.6	131.3	47.5	608.4	47.6
West Bengal	216.6	61.4	40.3	33.8	256.9	54.5	216.5	57.0	50.4	37.9	266.9	52.0	215.5	51.0	62.3	39.8	277.8	47.9	151.6	33.4	59.0	33.6	210.5	33.5
Delhi	0.9	21.7	17.0	40.9	18.0	39.1	1.2	27.0	12.2	24.4	13.4	24.6	0.3	6.2	10.2	15.5	10.5	14.9	0.1	1.2	6.8	9.1	6.9	8.6
Nagaland, Sikkim Tripura	28.0	54.6	6.3	47.5	34.3	53.2	29.0	51.2	7.7	46.3	36.6	50.1	28.8	43.8	9.6	41.7	38.4	43.3	26.7	37.6	10.7	38.9	37.3	38.0
and All Union Territories (excl. Delhi)	2529.6	54.6	581.9	47.5	3111.5	53.1	2550.8	51.2	661.7	46.3	3212.5	50.1	2417.3	43.8	744.3	41.7	3161.7	43.3	2210.4	37.6	807.9	38.9	3018.3	38.0
All India																								

Source: Report of the Expert Group on Estimation of Proportion and Number of the Poor, Planning Commission, 1993.



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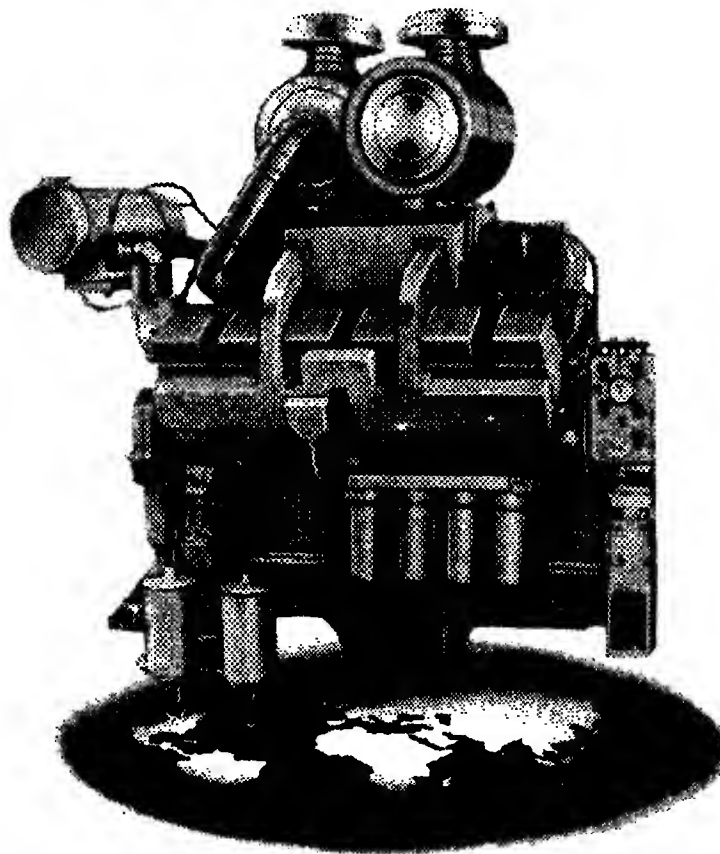
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Import Policy for LDCs

For strategic import policy to be more than a theoretical novelty and merit serious consideration by the LDCs as practical policy, two empirical questions have to be answered in the affirmative. Does the world as described by these models resemble the real trading environment of LDCs? And are the rents earned by foreign firms significantly large? An examination of the historical and institutional features of developing countries' import trade suggests that such imports are indeed supplied under conditions of imperfect competition and that consequently the case for strategic import policy is strong. 1803

Family-Size and Children

Are children from large families less likely to go to school? Are they less likely to attain educational milestones? Are they, as children, more likely to contribute labour assistance to their families? And are gender disparities in their schooling and working patterns more evident? A study of the relationship between family-size and outcomes for children in south Maharashtra. 1811

Garment Exports

The performance of India's garment export industry epitomises how an efficiently managed labour-intensive sector can be transformed into a prolific foreign exchange earner. All the same, major policy changes are needed to enable this industry to expand further in a substantial fashion, both by expanding the product base and by exporting to new destinations, particularly non-quota countries. M-95

Karbi Anglong

The restoration by the Guwahati High Court of the autonomous district council has re-focused attention on the Karbi Anglong autonomy movement as a treasure-house of valuable lessons—for nationality movements, for democrats looking for answers to the institutionalised tyranny of the Indian state and also for communists seeking to link local movements with the strategy and tactics of India's much-awaited democratic revolution. 1785

New Fashions

Ethics and values are likely to occupy a prominent place in the emerging scenario of professional management in India and elsewhere. M-87

Capital Norms

The wide inter-industry variations in capital structure call for explanation in terms of financial and other characteristics. From a policy perspective such an analysis would make meaningful the concept of an industry norm for capital structure for firms. M-91

Duped on Dunkel

The government of India's interpretation of the Dunkel draft is as ill-prepared as its submissions at the Uruguay round. 1791

No Ideology

While the Jharkhand movement has overcome some of its initial weaknesses and broadened its base to become more regional than ethnic, it still lacks an ideological bond. 1788

Unreliable

An alternative wholesale price index series with a weighting diagram based on the wholesale markets structure for 1988-89 brings out how unreliable the present official wholesale price index series is for measuring inflation. 1822

Flexible Specialisation

Flexible specialisation has achieved several good things, in Italy and elsewhere. Is it possible to achieve at least some of the same things, by some of the same means, in some parts of India? M-82

Brown Hills

With all the government's development efforts in the UP hills and with all the money coming in from migrants, degradation of the hill environment still continues under pressure of the people's needs for fuel, fodder and all that derives from fodder. 1793

'Adulteracy'

End of mass illiteracy comes not when the last adult is made literate but when schooling and literacy become accessible to all children. 1797

Down the Drain

It must be an extraordinarily inept government which cannot (a) contain a balance of payments deficit on current account and (b) manage a rapid growth of the economy with a domestic saving rate of more than 24 per cent. 1779

At What Cost to Women?

ARUN GUPTA and Jon I. Rohde ('Economic Value of Breast-feeding in India', June 26) have reiterated with convincing quantitative estimates what is well known about the benefit of mother's milk to the health of the infant and the effect of lactation in lowering fecundity. The way they have assembled data to demonstrate the *economic* value of mother's milk to the family and society is indeed useful.

However, when it comes to recommendations, Gupta and Rohde do not follow through their own argument. Despite the statement that "all efforts to preserve, promote and encourage breast-feeding should be taken and every measure necessary to reduce the regrettable trend towards bottle-feeding in our country is in order", they stop short with recommending legislation to dissuade the production and sale of mother's milk substitutes.

This is a limited approach. There is an assumption here that mothers are lured by the availability of substitutes and by their promotion and that that alone is what makes them give up breast-feeding. In fact, for the majority of those who give up breast-feeding it is a painful decision taken out of necessity. The society that expects the mother to nurse her baby is nevertheless unwilling to give her the necessary support in terms of adequate facilities at the place of work and parental leave of a duration that will minimise the strain of breast-feeding. The figures of the cost of bottle-feeds in relation to wages suggest that the woman is monetarily better off staying at home than taking up employment. This is misleading. The majority of women who take up employment do so out of necessity because the household income is inadequate for even the bare essentials. And, of course, a large number of women have to support themselves and their families entirely on their own. (It is unfortunate that despite decades of research to drive home this point, the assumption that women work outside the home out of choice or that their contribution to household income is secondary persists in so many quarters.) The problem is not selfish mothers but an economic system that refuses to compensate mothers for the value of mother's milk by offering facilities that will enable them to breast-feed their children without having to sacrifice their employment prospects. So many women who drop out of the employment market in order to rear children find themselves severely disadvantaged when seeking employment later on. It will be said, of course, that a poor country cannot afford liberal parental leave for working women. That is where the calculations of Gupta and Rohde may be helpful—in providing sup-

port to the argument that it is more economical to promote breast-feeding than produce milk substitutes.

To come to Gupta and Rohde's point about lowering of fecundity. Breast-feeding only helps in spacing births and need not reduce the total number of children. For the latter other measures are necessary. Unlike fertility control which is today attempted by measures that are inimical to women's health and do not address the real issue of authority and control in the family, promotion of breast-feeding should not be at the cost of the woman.

There are other points which need clarification. The problems of rural women are different from those of urban women. The former are involved in work which can be combined with breast-feeding. In urban areas generally, and in certain types of work in particular, working mothers are not permitted nursing breaks. Creche facilities are woefully inadequate. We therefore need to have information on the trends in bottle-feeding in different sectors. The article under discussion makes only the general statement that there is a trend towards bottle-feeding.

As for women unable to lactate, particularly in the urban areas, doctors and hospitals are not helpful. Mothers are not guided properly if they experience difficulties; for instance, they are not told that it takes a few weeks for lactation to stabilise. In the Netherlands, I find, nurses regularly visit the new mother and teach her to nurse the baby and guide her till lactation is fully established.

My general argument would be that it is not a question merely of the economics of bottle-feeding versus breast-feeding; the issue of breast-feeding is connected to women's issues and development issues and priorities in the allocation of resources.

MAITHIRYI KRISHNARAJ

The Hague

\$ 10 bn Blunder

IN his otherwise erudite and informative article on 'India's Rouble Debt and Depreciating Rouble' (July 3-10) N K Chandra takes ambivalent positions: On the one hand he tends to agree with the thrust of the *Economic Times* editorial (February 1) that India made a "\$ 10 bn gift to Yeltsin" and on the other hand he also endorses in general the editorial of *EPW* (February 6) captioned 'Not a Sell-Out'. It appears that this cost of \$ 10 bn to the nation would go towards the long-term benefits of (i) a veto in the Security Coun-

cil over Kashmir, (ii) defence capability (by which, I presume, Chandra means buying of spares), and (iii) long-run co-operation in science and technology. None of these arguments adds up to the \$ 10 bn gift—an amount India can ill-afford to forgo, when it came its way fortuitously.

As a former British prime minister said, there are no permanent friends or permanent enemies but only permanent interests. To this you must add the aphorism that a beggar cannot be a chooser, i.e., you cannot expect the Russia of today to make decisions independently. Its reneging on the rocket deal is a testimony to this. All contracts which defy national self-interest and economic logic must be reneged on or defied. Khomeini repudiated the contract that the Shah of Iran had entered with India in the case of Kudremukh Iron Ore, because the prices were much higher than international prices and thus the contract was against economic logic and Iran's national self-interest. When the Indian rupee was devalued, in the 80s, was not the rouble debt revalued? So why this double-standard now? Even *The Economist* had observed that India's rouble debt would be dissolved in the aftermath of 'rubafflation'. Both the veto at the Security Council and the scientific co-operation arguments of Chandra will have now vanished with the rocket episode. For the military spares, there are various options open from do-it-yourself to getting it through third countries, or one of the CIS countries, say Georgia or even from the same Russians on hard currency basis. After all they will understand a bit of a feedhack of pragmatism.

Let there be no mistake: When we revise the loan amount downwards, there is no moral turpitude involved here. Remember (i) the debt was denominated in rouble (this nullifies all the arguments about buying the armaments when Rb/\$ rate was good for USSR) (p 1451, para 5), (ii) there was a clause in the 1978 agreement that the rupee-rouble rate was subject to revision, and (iii) on all the earlier occasions, India had borne the brunt of the rupee devaluation.

There is also no scope for compassion, as India itself has all along been in effect over-paying its debts and for its imports to the western countries to the extent its exchange rate is undervalued in relation to PPP by a factor of 3.8.

So even now it is not late for India to renege on its ill-conceived sell-out, especially in the context of the backstab on the rocket deal. And as for *EPW* (a la its editorial) and Nirmal Chandra, the heart can be a bit on the left side, but it is important that the head should be in the right place.

V RANGANATHAN

Ahmedabad

Insensitive Monetary Management

BANKING and monetary developments in recent weeks have reflected the morbid state of the real economy. The conventional way of looking at financial year variations does not fully bring out the exceptional sluggishness of monetary and banking trends. The broad money measure (M_3) has expanded by Rs 21,553 crore (or 5.9 per cent) between March 31 and July 23, which is somewhat lower than that during the corresponding period of the previous year (Rs 22,882 crore or 7.2 per cent). But what is significant is that the bulk of the increase this year took place in April. About 70 per cent of the increase in M_3 took place before the end of April and the increase in the next three months between April 30 and July 23 has been only Rs 6,457 crore (or 1.7 per cent). All monetary and banking variables have been in a depressed state since April.

This has happened essentially because the authorities have concentrated on macro, or what may be called monetarist, regulations and moved away from any notions of equitable distribution of credit between medium and large industries, on the one hand, and the small and informal sectors, on the other, in the process depriving themselves of the ability to influence the flow of credit into productive activities. The low offtake of bank credit by the commercial sector has led to the drastic arresting of monetary growth. Net RBI credit to government (centre and states together) in the current fiscal year so far has been as high as Rs 14,638 crore as against Rs 6,353 crore in the corresponding period of 1992-93. Net RBI credit to the central government has been Rs 16,498 crore, which has contributed to a large rise in currency with the public. The average level of net RBI credit to the central government (Rs 11,807 crore) has been about 80 per cent higher than that in the previous year (Rs 6,578 crore). The centre's budget deficit reportedly touched a figure of Rs 20,750 crore as on July 23. Other banks (commercial and co-operative) which too are flush with funds have provided Rs 5,589 crore of additional credit to the government as against Rs 5,304 crore in the comparable period of the previous year. Accrual of net foreign exchange assets by the banking sector has been another expansionary factor—registering an increase of Rs 2,935 crore between March 31 and July 19.

Thus the sole depressing influence on monetary growth has emanated from reduced bank credit to the commercial sector. Between end-March and July 23, there has occurred a rise of Rs 3,225 crore (or 1.5 per cent) in such

credit against an increase of Rs 9,715 crore (or 5.2 per cent) in the corresponding period of the previous year. Further, of the total, an increase of as much as Rs 4,283 crore had taken place in the period up to April 30, followed by a reduction of Rs 1,060 crore up to July 23. The contraction in commercial credit is almost entirely explained by a reduction in the scheduled commercial banks' non-food credit. Provisional data published by the RBI for one more week up to August 6 show an absolute fall in total bank credit of Rs 2,783 crore over the April 30 figures or, excluding the expansion of Rs 1,847 crore in food procurement credit, a fall of Rs 4,630 crore in non-food credit in contrast to an expansion of as much as Rs 9,576 crore in the comparable three-month period of 1992. The large liquidity available with the banking system is also evident from the fact that investments of scheduled commercial banks in government and other approved securities have gone up by Rs 7,296 crore since the end of March against an increase of Rs 6,421 crore in the comparable period of 1992, leading to a steady increase in their investment-deposit ratio from 39.1 per cent in March 1992 to 40 per cent as on August 6. There ought in fact to have been a reduction in this ratio considering that the banks' statutory liquidity requirements in incremental terms have been slashed to 30 per cent over the base of April 3, 1992. Over the past 12 months ending August 6, increase in banks' investments in government and other approved securities together (Rs 16,224 crore) constituted about 46 per cent of the banks' incremental deposits (Rs 35,393 crore). As a result of the easy liquidity, call-money rates have dipped to unusually low levels.

What does one make of this peculiar banking and monetary scene? First, it is the market that determines how much credit the medium and large industries wish to draw. Last year they drew a large amount even though the nominal interest rates were significantly higher than this year. Now the demand for credit has been severely curtailed due to the persistence of recessionary conditions and reduced industrial output. As recent data suggest, overall industrial production registered an absolute year-on-year fall of 1 per cent in April 1993 as against a 7 per cent rise in April 1992, with the manufacturing and mining sectors experiencing even larger declines. The industrial recession has persisted for the third year in succession—a record in the country's post-independence history. Secondly, there is no contra-cyclical element in the Reserve Bank's monetary policy, providing for selective

credit expansion in areas where demand could be stimulated (except for the Rs 400 crore package for IDBI in January). It is the small-scale and informal sectors which suffer the most in such a situation, though they deserve liberal credit dispensation which could play a role in the revival of industrial output and employment. However, the policy signals in this regard have been quite the contrary, as a result of which there has been a steady decline in the share of bank credit in favour of the priority sectors. As at the end of March 1993 priority sector advances stood at Rs 46,653 crore as against Rs 44,581 crore at the end of March 1992, indicating a 4.6 per cent increase in 1992-93 (against an increase of 19.3 per cent in total non-food credit) and a decline in the share of such credit in total bank credit to as low as 36.6 per cent in March 1993, against the level of 45 per cent a few years back and the prescribed target of 40 per cent. A similar structural deterioration is seen in the steady decline in the share of 'rural' areas in total bank credit: from 14.6 per cent in March 1990 to 14 per cent in March 1993.

Lastly, together with the insensitivity of the aggregative monetary policy framework, the unjustifiably high discount rates on treasury bills and coupon rates on government securities too have contributed to the distortion of monetary and banking trends, encouraging banks to prefer these riskless forms of investment rather than soil their hands with lending to the small and informal sectors.

Overall, due to the tight grip of the structural adjustment policies over the economy, we are likely to increasingly see the scarce resources of the community being dissipated by financial intermediaries in money market instruments and treasury management. This is the direct outcome of the new signals put out by the government to these institutions to protect their bottomline irrespective of what happens to output and employment in the real economy.

ASIAN ECONOMIES

Not By Reform Alone

DESPITE the sluggish state of the world economy, the Asian Development Bank (ADB) claims in its annual report for 1992, the bank's developing member countries sustained their economic dynamism and, on average, achieved a 6.9 per cent growth in 1992 compared with 6 per cent in 1991. For the ADB, the driving force behind this dynamism is economic

reform combined with strong external sectors, trade in services and foreign direct investment. This is claimed to be especially true of China which registered a phenomenal 12.8 per cent growth in 1992.

In regard to the entire region's performance, the ADB's annual report emphasises that the economic reforms and structural changes undertaken in recent years had begun to take effect in many of the countries. Apart from Laos and Vietnam, even India exhibited some positive effects of the policy reforms initiated in 1991. If economic growth in the newly industrialising economies and some other countries of south-east Asia was adversely affected, it was essentially because of the prolonged recession in the world economy and weakened domestic demand. Tight monetary policies to bring down inflation rates were the biggest factor in the softening of the domestic demand. Faster growth in imports led to deterioration of current account balances. Foreign direct investment, while it remained substantial, grew at a slower rate, due partly to problems of absorption and partly to the recession in the industrial countries.

Dealing with the performance of individual countries, the ADB's annual report focuses only on conventional issues of macro-economic adjustment and stabilisation concerning the monetary, fiscal, financial and external sectors, though the bank claims to be engaged in promoting the economic and social progress of its developing member countries. In fact there is much more to the economic success stories of the region, like that of China, than the economic reforms which the ADB harps on. If China's GNP grew by 12.8 per cent in 1992, it is well to remember that comparable growth rates had been achieved in that country almost a decade earlier, for example, 14.6 per cent in 1984 and 12.7 per cent in 1985. For about 15 years, China's GNP growth rate has averaged 8.5 per cent per annum. Its exports have risen rapidly, from about \$ 7.8 billion in 1978 to \$ 68 billion in 1992. Crucial to such economic dynamism has been China's achievement in building social and economic infrastructure including a healthy population, an egalitarian economic and social system and a broad domestic demand base. While the role of the non state sectors (collectives and private and foreign joint ventures) has expanded rapidly in recent years, state enterprises continue to play a major role in the economy. If China's external sector has remained strong despite the slow growth of world trade, it is partly

because of the country's ethnic links with Hong Kong, Taiwan, Singapore and other south-east Asian countries. Thus if China's economic success is to be understood properly, the analysis has to go beyond the shibboleths of macro-economic adjustment and reform—restrictive monetary policies, fiscal and trade reforms, privatisation programmes and other policies aimed at making the economy more open and outward-oriented. Similar social and economic factors—and not just their commitment to economic reforms, as suggested by the ADB—have made possible the economic performance of the countries of south-east Asia (Malaysia, Thailand, Indonesia and Philippines) leading to their emergence as one of the world's fastest growing sub-regions.

Likewise, if the growth performance of the south Asian countries (India, Pakistan, Bangladesh, etc) has been lacklustre, it is because of the inadequacies of their social and infrastructural bases. To argue in India's case, as the ADB has done, that the so-called industrial recovery in 1992, reflected "the favourable impact of trade liberalisation" shows the narrowness of the bank's perspective. India's industrial growth had averaged over 8 per cent during the whole of the 1980s and then came the stabilisation and structural adjustment policies which struck at the roots of the country's industrial development so far (i.e. public sector investment and demand) and the rate of industrial growth was nil in 1991-92 and 1.5 per cent in 1992-93. When China adopted economic reforms there was not a year when growth received a setback in this manner.

No attempt is made by the ADB to provide a perspective of social and economic progress made by the countries of the region in terms of their real sector developments. For instance, domestic savings constitute an important source of growth in many of these countries but the ADB's report contains no systematic discussion of this subject. Nor does the progress achieved in the physical quality of life in the Asian and Pacific countries receive any attention, though the ADB should be privy to a massive amount of economic and social statistics which its member-governments dutifully furnish. It is a pity that the ADB, which is a multilateral financing agency for a region which harbours more than one-half of the world's poor, is falling into the same rut as the IMF and the World Bank and limiting its focus to stabilisation and structural adjustment policies.

which on the whole hold up progress towards relatively equitable and just social orders.

RELIGION AND POLITICS

Different View

A correspondent writes:

IT is difficult to say whether the controversial bills intended to separate religion from politics, which have now been deferred, will reach the stage of enactment or even whether they will come up for discussion again. The deferment, nevertheless, gives an opportunity to political groups, independent observers and the general public to analyse once again the possible implications of the proposed legislation.

So far, the implications have been discussed mostly in terms of gains and losses to one or the other political group. The difficulties likely to be encountered in the implementation of the proposed legislation have also been commented upon. In other words, the discussion has remained confined to the narrowly political and administrative aspects of the bills. What has failed to attract the attention of observers is the effect such legislation may have on those aspirations and grievances of particular communities which emanate from the socio-cultural and historical consciousness and experiences of those communities and which may need to be articulated in the form of legitimate political struggles. These aspirations and grievances, which could very well be ultimately economic in their essential nature, could be formulated and perceived in terms of the caste or language of a particular community, but they could also be formulated and perceived in terms of its religion. Further, the community formulating and perceiving its aspirations and grievances in this manner could belong to any of the religious traditions.

Seen from this perspective, religious consciousness, at a deeper level, cannot be banished from the public arena; it can only be suppressed and kept invisible to the public eye. This suppression, however, can be resorted to only in an authoritarian society. In a society which aspires to be democratic and therefore where all political aspirations may need ultimately to be articulated in electoral terms, religious consciousness may sometimes come to operate more visibly and in a narrowly political manner. Inevitably, sooner or later, this articulation would take place through parties or groups which, because of this reason, would tend to acquire, permanently or temporarily, partially or com-

pletely, an apparently religious colour and would resort to the use of a language which may seem religious in tone or tenor. Needless to say, such parties or groups and their language would only superficially be religious; in actuality, they would be political and would conform to the standards of legitimate politics.

One implication of the above argument is that religion or, to be more precise, religious consciousness, in terms of the historically received self-understanding and therefore historically manifested self-projection of a community, cannot be separated from politics. Another implication is that any attempt to delink religion from politics in a democratic society and moreover in a society which is pluralistic in its religious composition, faces the danger of being interpreted as a deliberate and politically motivated step to throttle religio-political activities. In a socially surcharged atmosphere, such as obtains in our society at the moment, this can be a source of endless political strife. Although in its effort to delink religion from politics the proposed legislation seems to operate largely at a superficial level—it provides for a ban on or a disqualification of associations or individuals who promote or attempt to promote, on grounds of religion, disharmony or feelings of enmity, hatred or ill-will between different religious communities—it has sufficient potential to become the subject of such an interpretation. Even though none of the political groups which have so far commented on the provisions of the bills has been able to uncover this potential—most of them have drawn attention to the authoritarian tendencies inherent in the bills in a purely administrative sense—the likelihood of this happening in the future cannot be ruled out. This uncovering could very well take place at the hands of the groups which purportedly represent numerically smaller religious communities—that is, this potential could come to be perceived, by these communities, as an assault on their socio-cultural and historical existence.

SOFTWARE EXPORTS

Beyond Body-Shopping

THE hullabaloo over the recent changes in the US immigration laws affecting as they do especially the computer software industry has thrown up several issues about the manner in which the software industry has developed in the country and the desirability of encouraging such a trend.

The changes in the immigration laws re-

quire that the computer software professional now seeking to go to the US for a short stint will have to go through a more elaborate process for obtaining a visa. For example, the visa cannot be granted by the local consulate but will have to be sent for approval to the US. This will mean that the quick visas obtainable under the B-1 category are a thing of the past. What actual impact this will have on software exports is yet to be determined, notwithstanding the hue and cry in the software industry. For instance, according to one opinion genuine exporters who will need to send professionals for short-term work (which is usually of a kind needing experienced personnel who have been with the exporting company for a while) where no revenue is earned will still be able to obtain B-1 visas at short notice. This, however, may not be so easy for smaller firms who have in the past hired experienced and qualified staff for particular on-site projects. It is thus likely that the genuine small exporters of software will suffer the most.

Nearly 60 per cent of the Rs 6,500 million so-called software export is to the US. Of this 65 per cent is in the form of on-site work, which means that personnel are sent from here to work on projects there. A good proportion of this however is known to be a cover for American companies to obtain computer professionals at cheap rates. This in fact was the reason why the computer professionals associations led by the National Association of Computer Consultant Businesses (NACCB) in the US put pressure on the government to change the immigration laws. American companies were found to be circumventing labour laws in the US by employing Indian and other third world professionals without adequate compensation and many Indian software companies functioned only as employment agencies indulging in a variety of illegal practices which went unnoticed because the process of scrutiny was not very thorough. The National Association of Software and Service Companies (NASSCOM) however maintains that most of the professionals sent for on-site work are employed in India and do not receive anything more than a maintenance allowance in the US. Since there is no reliable data on these issues their resolution will depend on who has the most clout. In this particular case it is unlikely that the US immigration authorities will give in to pressure from India, especially in the context of narrowing employment markets in the US.

The recent events however raise disturbing questions: firstly, there is the fact that

a large proportion of our software exports are in the form of on-site services where it is unlikely that either the exporting company or the individual concerned will have any rights over the product developed. In effect what is earned is the fee for the work, and some experience. Does this add to the growth of the software industry in the long run? N Vittal, secretary to the department of electronics defends the fact that a major proportion of Indian software exports is in the form of export of human power thus: "there is no reason why a country with growing technology should not start with the lower end of technology". However, there are no signs that the industry will move out of the 'lower end' of technology if this trend continues. For, body shopping implies easy money, especially with the sort of encouragement being given by the government to software exporters. Moreover, the fact that a recent Japanese delegation is reported to have been surprised at the extent of software talent available in India is an indicator that exporters have neglected possible export opportunities in other countries. Software exports to Japan constitute less than 2 per cent and, ironically, it has been reported that the new US visa regulations will affect the completion of many US projects aimed for Japan because of the shortage of Indian professionals.

The other issue is that the software industry appears to have entirely ignored the local market or indeed made little attempt to develop it. With easier availability of computer hardware, it would be logical to assume that there is a concomitant need for developing appropriate software in all categories. Yet apart from generally duplicating or slightly modifying existing software, there have been few developments. The question therefore is whether the software industry should be encouraged, as it is being now, simply as an export-earner? In which case its growth will be tied to the needs of importing countries, as has been the case so far. Or given that such a vast pool of human resources is being created, should not adequate encouragement be given to a more genuine development of the industry?

NUCLEAR INDUSTRY

Undisposable Dirt

THE question of the disposal of radioactive wastes has always aroused the nuclear industry's ire. If the nuclear industry's affairs are shrouded in secrecy, information

on radioactive waste and its disposal is even more closely guarded. The reasons are partly its connections with the manufacture of nuclear armaments and partly the fact that no foolproof method of nuclear waste disposal has been developed, notwithstanding the periodic placatory statements by country agencies and the International Atomic Energy Agency. This is why every incident concerning nuclear waste, whether connected with the transport of radioactive waste to unsuspecting countries or attempts to dump it in the sea or a site accident is of serious import. It indicates for one, the inability of the industry to successfully tackle the problem; and, secondly, the grave dangers which are currently being posed and which will continue to exist even if the nuclear industry were to cease to function today.

The latest accident has occurred at the Hanford Nuclear Reservation in Washington state, a site which in the days of the cold war supplied most of the hazardous plutonium. Some four years ago the state, the department of energy and the environmental protection agency agreed on a clean-up agenda for the site which sports innumerable nuclear reactors now shut down and is spotted with radioactive waste dumping sites which have not been well-documented. Waste had been dumped into underground trenches or huge underground storage tanks, many of which are now leaking. As yet there has been poor progress on how to dispose of the large quantities of waste. The accident occurred when a worker wanting to check a drain near an underground tank dropped a measuring tape tied to a stone into it. When he pulled out the rock, it was contaminated and so was the worker. Around the same time another worker accidentally switched on a mixing pump used inside a tank with chemicals and radioactive waste. The consequence of this would have been disastrous, if the accident had not been handled promptly. These incidents cannot be dismissed as specific to a particular site, because they highlight the fact that a commonsensical action by a worker can become a major hazard and a small accident can turn into a disaster. And this at a site where workers are specially trained.

Whatever be the pros and cons of the role and relevance of nuclear power, it is an unassailable fact that it is the only industry where the hazards exist not only when a unit is operational but for all time in the form of 'dead' reactors and radioactive waste.

TWENTY YEARS AGO

EPW, August 25, 1973

From Calcutta Diary:

It is not absolutely necessary to invoke Bertolt Brecht for imbibing the Song of Mother Courage. If one is looking for grit, one can still find plenty of it even in this neighbourhood. The umpteen frustrations notwithstanding, little islets of fortitude, patience, courage, spring up almost every day. It could be an interesting interlude to hop around, on a spare morning or afternoon, the suburbs of Calcutta, and visit these vast congregations of humanity—the camps and townships crowded by refugees from what was, till the other day, East Pakistan. These specimens of submarginal existence have grown and spilled over steadily, inexorably, in the course of the past 25 years. Let us not probe the reasons; they are the antipodes of Punjab, the archetypal non-success story. The refugee colonies and shanty towns still represent a form of creativity, but it is the creativity that stems from passive acceptance of the enveloping squalor and filth and hopelessness. Life is crude and ride, and full of daily vicissitudes. A community of people, who lost their all across the border, have not been able to discover new moorings, despite a quarter of a century's shufflings. On the contrary, elsewhere, there will be an earful of complaints about how they have taken the precarious economy of West Bengal further down the road to ruin. Here and there, there are, of course, isolated cases of success.

But for the vast multitude, it is a story of nagging, monotonic destitution... Trace the genealogy and you will find that many of these young people have their roots in the erstwhile landed gentry of East Bengal; they are a community of high-caste goons. It has taken the space of a bare 30 years to reduce the scions of proud, land-owning aristocracy into the filthiest social scum.

Alexcon Foamcast

ALEXCON FOAMCAST (formerly Rife Construction and Commercial), incorporated in December 1985 at Bombay, proposes to set up an export-oriented foundry unit at Khalapur Taluka in the Raigad district of Maharashtra, with an annual capacity of 14,000 tpa for grey iron, S G iron, steel and alloy steel castings and 2,000 tpa of aluminium castings with technical and financial collaboration from Vulcan Engineering Company, USA. The company will use the 'lost foam' technology which is superior to the conventional process. Vulcan is an acknowledged world leader in this technology. A survey conducted by a market research agency shows that the company's products will have a relative advantage in three market segments, namely, automobiles, hermetically sealed compressors and electric motors. The survey projects a 25 per cent market share of iron compressors market for the company, 15 per cent of the iron electric motors segment and 20 per cent of the automobiles segment out of a total estimated consumption of 14,000 mt, 27,475 mt and 1,50,726 mt of the three segments respectively. The raw materials, namely, expanded polystyrene, sponge iron, ferrous and non-ferrous scrap, aluminium ingots, etc, are available locally. The project, expected to commence trial runs in July 1994 and commercial production by September/October 1994, is estimated to cost Rs 6,990 lakh out of which Rs 605 lakh (8.7 per cent) is to be

spent on land and building, Rs 3,911 lakh (55.6 per cent) on plant and machinery, Rs 330 lakh (4.7 per cent) on technical know-how fees/expenses on foreign technicians and Rs 837 lakh (12 per cent) on preliminary and pre-operative expenses. The project is to be financed through equity share capital of Rs 3,300 lakh (existing capital of Rs 100 lakh, Rs 800 lakh to be raised through a rights issue, Rs 700 lakh to be subscribed by Vulcan and the balance to be raised in appropriate manner after appraisal of the project by financial institutions), Rs 3,670 lakh through term loans from all-India financial institutions for which an application has been made to IDBI, and capital subsidy of Rs 20 lakh. The rights issue of 80,00,000 equity shares of Rs 10 each at par (Rs 5 on application and Rs 5 on allotment) in the ratio of eight shares for every one share held opens for subscription on August 30.

Karan Fibres

Karan Fibres and Fabrics, promoted by G C Chechnani and engaged in the twisted production of polyester texturised yarn, is now taking up manufacture of polyester texturised roto set yarn with a capacity of 1,317 tonnes per annum at Viramgam, Gujarat. The raw material cost, i.e, partially oriented yarn, itself constitutes 80-85 per cent of the cost of production of polyester texturised yarn, while lately POY prices have increased by about

Rs 12 per kg. But the company is venturing into the project confident that it would be able to pass on the additional cost to the consuming polyester textile sector. The project to commence commercial production by this September is appraised by Gujarat Lease Financing to cost Rs 6.20 crore of which 75 per cent is being financed with equity and the balance by lease finance and state capital subsidy. Against the existing share capital of Rs 1.27 crore, the company is issuing 33.89 lakh equity shares of Rs 10 each at par and issuing out of this 31.35 lakh shares to the public. The issue opened on August 24 under Gujarat Lease Financing as lead manager. The company has projected for 1993-94 a turnover of Rs 21.60 crore at 90 per cent capacity utilisation which is expected to yield a net profit of Rs 1.23 crore with EPS at Rs 2.64. By 1995-96, when capacity utilisation will be 95 per cent, the turnover and net profit would amount to Rs 23.31 crore and Rs 1.26, crore, respectively, and EPS at Rs 2.69.

UP Mineral Products

Manvir Singh and Atul Goel are jointly promoting, with the UP State Mineral Development Corporation, UP Mineral Products to establish at Pali in Meerut district a project for manufacture of calcium silicate bricks, which are much stronger than the usual red clay bricks, and which afford use in a variety of applications. The project is to commence commercial production this September. It has been appraised by the Pradeshhiya Industrial Investment Corporation of UP (PICUP) to cost Rs 7.95 crore, while it is being financed with Rs 6.45 crore of equity (UPSMDC contributing Rs 32 lakh as promoter) and a term loan of Rs 1.50 crore from PICUP. The company has applied to State Bank of Saurashtra for working capital funds. PICUP's appraisal puts turnover and net profit in the first year at Rs 4.68 crore and Rs 85 lakh, respectively, while by 1995-96 the same are estimated to increase to Rs 10.69 crore and Rs 1.99 crore and EPS then is to amount to Rs 3.09. The company presently has a paid-up share capital of Rs 1.06 crore. It is issuing 53.86 lakh shares of Rs 10 each at par, offering 33.90 lakh shares to the public and 6 lakh shares to the NRIs while keeping 4.45 lakh shares for allotment to banks' mutual funds. Empire Finance Company and Gujarat Lease Financing Company are the lead managers of the issue.

—JK

Subscription Rates Inland (including Nepal and Bhutan)

	Six months	One year	Two years	Three years
Institutions	—	475	900	1325
Individuals	200	375	700	1025
Concessional Rates				
Teachers/Researchers	—	250	—	—
Students	—	195	—	—

Concessional rates are available only in India. In avail of concessional rates, certificate from relevant institution is essential.

Remittance by money order/bank draft/postal order requested. Please add Rs 14 to outstation cheques towards bank collection charges.

Foreign Air Mail Institutions Individuals Institutions Individuals

	Institutions	Individuals	Institutions	Individuals
Pakistan, Bangladesh & Sri Lanka	60	30	40	20
USA, Canada, UK, Europe, Japan, New Zealand, Australia & USSR	125	80	70	40
All other countries	80	50	50	30

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Excise Relief for Cement?

Jairaj Kapadia

SPECULATION is currently rife on the stock market that a cut in the excise duty on cement is imminent. This is after the expectations of the industry of a relief in this year's union budget did not come true. The excise duty on cement was hiked to Rs 90 per tonne in the 1991-92 budget.

Even as the market is talking about the relief now coming, the industry has not said a word to this effect. But on the market the impression is showing. There has been a spate of buying in cement shares, although till now they were going abegging. Cement companies and others having taken to cement manufacture in a big way had reported a setback in both sales and profits.

In the review of companies this week is featured Birla Jute and Industries, which is licensed a capacity of 35.50 lakh tonnes of cement and has plans of a further addition on hand. The company's adverse results for 1992-93 are squarely put down by the directors to adverse business in cement. Making out a case for relief in excise, the directors of Mangalam Cement, in their report for the year 1992-93, observe: "There is no other industry which qualifies more than cement to legitimately claim significant reduction in excise duty" on considerations of depressed demand conditions and production of mass consumption goods to which the finance minister had referred in his

budget speech as he announced the cuts in excise duty on different products.² Stating that the current excise duty on cement at 40 per cent of sales realisation for naked cement was perhaps the highest, Mangalam Cement's directors had expressed the hope of the government coming to the rescue of the industry by granting relief to at least the new cement plants. It looks as if the old and the new cement plants are both now due for a favourable consideration.

BIRLA JUTE

Changing Markets

Both sales and turnover of the Birla Jute and Industries during the year ended March 31, 1993 have amounted less, the latter by as much as 63 per cent to Rs 44.95 crore. This is attributed by the directors of the company to a marked drop in the demand for cement, besides the sharp increase in excise duty, railway freight and other costs due mainly to governmental actions during the year. The closure of the company's Bally Jute Mills due to vandalism by the labour, as the company puts it, has also contributed to the decline in turnover and profits. But it is the adverse cement operations that is primarily responsible for the lower outturn.

Cement production went down from 28.37 lakh tonnes in 1991-92 to 26.89 lakh tonnes in 1992-93 and so also cement despatches from 28.24 lakh tonnes to 26.85 lakh tonnes, as the government curtailed offtake by 50 per cent in an effort to reduce the budgetary deficit. The average realisation per tonne of cement was down by Rs 180, including the excise of Rs 90 per tonne and additional railway freight, which could not be covered in the price realised. On the other hand, cost increases of power, coal and wage award amounted to Rs 80 per tonne. "Altogether, these account for a decline of Rs 70 crore in profits," the directors state in their report.

Birla Jute is engaged in manufacture of jute goods, calcium carbide, ferro-manganese, oxygen gas and acetylene gas, synthetic, viscose and cotton yarn, linoleum, PVC floor/wall coverings, cement, iron and steel castings and other products. Of these, in addition to cement, production of jute goods declined from 59,313 tonnes to 53,127 tonnes, while that of linoleum increased from 1,87,774 tonnes to 2,88,424 tonnes and of PVC floor/wall coverings

The Week's Companies

(Rs lakh)

	Birla Jute		Shree Manufacturing		Premier Instruments	
Financial Indicators	March 1993	March 1992	March 1993	March 1992	March 1993	March 1992
<i>Income/expenses/profits</i>						
Net sales	54335	59692	2499	2228	4450	3971
Excise duty	10111	7696	291	171	-	-
Other income	2612	2314	31	34	166	18
Increase (decrease) in year-end finished stock	2100	469	46	129	(33)	31
Raw materials consumed	10684	10913	1716	1549	2325	2144
Power and fuel	14225	12486	157	125	55	53
Other manufacturing expenses	8600	8668	79	70	140	101
Labour cost	6631	5939	216	172	743	647
Other expenses	11183	9848	159	150	479	414
Operating profits	7725	14620	250	324	840	634
Interest charges	3230	2416	200	175	339	370
Gross profits	4495	12204	50	149	501	264
Depreciation	3219	2916	77	75	190	181
Profits before tax	1276	9288	27	74	311	83
Tax provision	235	4250	-	-	80	20
Profits after tax	1041	5038	-27	74	231	63
Dividends	764	764	-	-	54	45
<i>Liabilities/assets</i>						
Paid up capital	3056	3056	299	299	301	301
Reserves and surplus	21025	21463	50	50	889	688
Long term loans	16847	8839	413	524	486	792
Short term loans	7549	6046	575	361	1031	1163
Other liabilities	9466	9444	268	338	688	748
Gross fixed assets	61491	54930	1016	991	2022	2327
Accumulated depreciation	29495	26057	462	386	930	826
Inventories	13294	9150	658	576	973	1046
Of which finished goods	6076	3976	452	406	210	243
Receivables	4713	3540	199	240	1107	952
Loans and advances	5751	5541	42	38	137	103
Cash and bank balances	2103	1544	25	14	57	60
Investments	86	200	-	-	29	30
Other assets	-	-	125	99	-	-
Total liabilities/assets	57943	48848	1605	1573	3396	3692
<i>Key financial ratios</i>						
Turnover ratio	0.94	1.22	1.56	1.42	1.31	1.07
Return on sales %	8.27	20.44	2.00	6.59	11.26	6.65
Return on investment %	7.76	24.98	3.12	9.47	14.75	7.15
Return on equity (%)	4.32	20.55	-7.71	21.14	19.41	6.37
Earning per share	3.41	16.49	-0.96	2.67	7.68	2.10
Dividend (%)	25	25	-	-	18	15
Book value per share (Rs)	65.44	63.65	12.53	12.53	36.87	30.07
Current market price	237.50	-	N/A	-	54	-
P/E ratio	69.65	-	-	-	7.03	-

increased from 88,500 tonnes to 4,86,438 tonnes.

However, in floor coverings, domestic demand has been found to be limited, and following this, the company is now developing alternate products, such as PVC coated fabrics (artificial leather) which have a much bigger market, for more effective utilisation of machine capacity. In linoleum, given poor domestic demand and conditions in Russia deteriorating further to allow no chance for export to that country, the company has entered into a long-term agreement with a German linoleum manufacturer for technical help in upgrading the product and for marketing it within Europe on a regular basis.

In carbide and industrial gases, the performance of the unit has continued to be constrained by adverse market conditions. A second submerged arc furnace was revived and remodelled, after it had been lying idle for some 12 years, as part of the diversification programme, but at the last moment the West Bengal State Electricity Board raised certain objections to providing power for the manufacture of ferro-manganese. However, the issue was resolved and pre-heating of the furnace started on March 27, 1993 and since the furnace was stabilised, it has been working at around 50 per cent load and the finished product of fully acceptable 70-75 grade high carbon ferro-manganese is being manufactured.

It will be seen from the above that the operation of the company's other divisions were not up to expectations. Meanwhile, in the Satna cement works, two of the boilers have been converted to fluidised bed combustion system to effect considerable improvement in efficiency and capacity. At Chittor, while the quality of coal continues to be poor, the plants have been able to improve their clinker production considerably, thanks to stabilisation of two kilns after they were modernised the previous year. As the existing limestone mines are being exhausted, new mines at a distance of 5 km from the plants are being developed and a new limestone crushing plant has been installed as a separate unit. At Durgapur, granulated slag output has declined due to reduction in the availability of molten slag from the Durgapur Steel Plant because of the modernisation of its blast furnaces, while production of cement was restricted due to a decline in the offtake of cement.

Modernisation and expansion of the Chittor cement works from 5 lakh tonnes to 8 lakh tonnes per annum will be completed during the latter part of 1993-94, while the cement grinding mill will be

commissioned by September. Expansion of capacity by one million tonnes each at Satna and Chittor could not be taken up due to the absence of pollution control clearance from the concerned government authorities. In Jute goods, having pioneered development of hydrocarbon free bags, the company exported during the year 2,000 tonnes of such bags to Turkey for the packaging of shelled hazel nuts for the European markets.

The company effectively made up the loss in exports to the erstwhile USSR markets by stepping up exports to the general currency areas which increased during the year from Rs 2,107 lakh to Rs 3,287 lakh against a decline recorded in exports to rupee payment areas from Rs 1,848 lakh to Rs 1,299 lakh. The total exports increased from Rs 3,955 lakh to Rs 4,586 lakh. The company has been sanctioned loans aggregating to Rs 20 lakh and \$ 2,600,000 equivalent to Rs 804 lakh by the ICICI out of the IBRD line of credit for cement modernisation in order to procure mining machinery and shunting locomotives for its cement plants at Satna, Chittor and Durgapur, under energy conservation scheme of the World Bank.

SHREE MANUFACTURING

Turn for Worse

Shree Manufacturing Company has gone in the red again during the year ended March 31, 1993 after it reported a profit in the previous year. This is due to disturbances in the Bombay and Gujarat areas which are the main selling outlets for its products, namely, man made fibre blended yarn, adversely affecting its operations. As the main selling points were in a disarray, the company had to divert the bulk of its production to other centres of comparatively low sales realisation. However, the company has been able to make a gross profit of Rs 50 lakh, which is roughly a third of the figure of Rs 149 lakh in the previous year.

But a net loss of Rs 27 lakh, after providing Rs 77 lakh for depreciation, has brought up the carried forward loss to Rs 125 lakh, after the previous year's net profit of Rs 74 lakh had helped reduce it to Rs 98 lakh. The loss is carried to balance sheet for adjustment against future profits. But if it were to be written off against own funds, it would amount to writing down of the book value of the company's equity share to Rs 8.02 compared to Rs 9.02 as at the close of the previous year.

The company has proposed all the same a rights issue of Rs 140 lakh in equity

shares of Rs 10 each at par in order to raise funds to finance installation of some additional machines and also to meet the working capital requirements. It has also increased the authorised share capital from Rs 3 crore to Rs 10 crore by creating 70 lakh equity shares further to the passing of the necessary resolution at the EGM held on January 4, 1993.

PREMIER INSTRUMENTS

Rise in Exports

Despite recession afflicting the automobile industry for the last two years, the four-wheeler instruments company, Premier Instruments and Controls, has fared better and recommended a higher dividend to the shareholders for the year ended March 31, 1993. It has done this by supplementing production with manufacture of defence instruments which contributed additional Rs 116 lakh in sales. At the same time, the company has taken to exports, raising Rs 618 lakh in sales in a turnover of Rs 4,450 lakh, as against Rs 223 lakh in a total of Rs 3,971 lakh in the previous year.

This feat has been made possible, first by the support of the technical collaborators, Nippondenso Co, Japan, by providing training to the company's engineers and technicians at the plants in Japan for the upgradation of the technology for the manufacture of four-wheeler instruments, and secondly, by the company's R and D efforts to develop new range of products. The R and D centre, which is well equipped and has the requisite infrastructure, is duly recognised by the ministry of science and technology for transfer of technical know-how in manufacture of products to meet customers' requirements.

As the directors put it, increase in export turnover, together with a saving in interest on account of a reduction in borrowings, yielded a higher net profit. With that, tax provision amounted more. But there was a reduction in the provision for depreciation under the Income Tax Act consequent to sale of assets, i.e., the land and building at Gurgaon, Haryana. This brought a profit of Rs 157 lakh, boosting disposable surplus and enabling a higher dividend to be declared. The company has maintained operations at its unit in Coimbatore. In order to further exports, the company has reappointed K and F OY and K P Kunhi Mohammed as the sole selling agents respectively in Finland and Egypt, and appointed similarly Emdi Europe S A in Belgium, Germany, Italy, France and the Netherlands, for a period of two years.

SIV INDUSTRIES LIMITED

Chairman's Speech

Speech of the Chairman, Shri Pallonji Shapoorji Mistry, at the Thirtyfifth Annual General Meeting of the Company on 20th August 1993 at Coimbatore.

Ladies and Gentlemen,

I have great pleasure in extending a very warm and cordial welcome to all of you to this Annual General Meeting of your Company. The Directors' Report and the audited accounts of the Company for the year ended 31st March 1993 have been with you for some time and with your permission I shall take them as read.

ECONOMIC SCENARIO

Since 1991, the Government has been taking a series of measures to restructure the economy. The Government has given a new thrust and direction to the economic policy of the country. Several significant steps have been taken to give more freedom to business with virtual abolition of industrial licensing, relaxation of MRTP, abolition of FERA etc. The challenges and promises of a liberalised economy are vast. The main theme of the new economic policy is to open our economy to the globalised market-oriented environment by reducing controls and streamlining duties and taxes, eliminating administrative delays and most important, making the Indian Rupee fully convertible.

Thanks to these measures, the country's economy is much stronger today. Inflation has been largely controlled. However, a great deal remains to be done. The year 1993-94 marks the third year of the liberalisation process and structural reforms initiated by the Government. The private sector, now free from the needless controls, must be able to gear itself to meet the challenging needs of the future. In the changed scenario, the primary response from industry must be to improve value additions in manufacturing operations. Since quality is the undisputed hallmark of the value of a product or service, there has to be a special drive to attain global quality standards.

PERFORMANCE

From the Annual Report and Accounts, the shareholders will have observed that there has been an increase of about 32% in the Company's turnover for 92-93. Despite adverse market conditions for edible oil, net profit after taxes for the year amounts to Rs.12.98 crores as compared to Rs.8.62 crores in the previous year. Improved performance is attributed to higher production levels and good offtake for the products.

EXPORTS

During the year, the Company exported rayon filament yarn, viscose staple fibre and de-oiled cake. The Company achieved an export turnover of Rs.11.50 crores in comparison with Rs.9.43 crores in 91-92. In pursuance of our commitment to national objectives, the Company has been making conscious efforts to step up the exports and earn valuable foreign exchange for the country.

100% EXPORT ORIENTED UNIT

As mentioned in the Directors' Report, the Company has, during the year, set up a Viscose Staple Fibre Export Oriented Unit with indigenous technology. This plant has been facing several technical problems and as a result, production has not been up to the desired level. Production as well as the quality of the fibre is gradually picking up. It should be possible to attain normal production in the current year.

EDIBLE OIL DIVISION

The Edible Oil Plant located at Palani worked satisfactorily during the year. As a result of concerted efforts to encourage sunflower cultivation, the Company has been able to improve the procurement of sunflower seeds from Tamilnadu. It is planned to intensify the extension activities so as to increase the procurement further from Tamilnadu in the current year.

However this Division had a setback in 92-93 following a sharp drop in the market prices of edible oil. Indications are that the market will be fairly stable in the current year.

AGRO-FORESTRY / R & D ACTIVITIES

The Company is actively involved in the conservation and regeneration of forest wealth. R & D centres established by the Company in Ooty, Kodai and Srirangam to develop high yielding and low maturation period, cellulose rich trees continue to make satisfactory progress. During the last 7 years, the Company has raised and distributed large quantities of seedlings to the 3 growers. The R & D centres also carry out experiments on a continuous basis for improvement of nursery and plantation techniques and genetic improvement of pulpwood trees. The Company also propagates planting of trees outside forests. This is necessary to generate raw material for the Company as well as to improve economic and ecological conditions.

ENERGY

The Company continues to make efforts to conserve and optimise the use of energy through improved operational methods and other means.

In the context of increasing needs for power in the country to cater to the growth of industry, there is a need to develop energy through non-conventional sources. To start with, your Company has set up a Wind Energy Farm of 1 MW at Muppandal in Tamilnadu.

SUBSIDIARY COMPANIES

SIV-Mageohar Lignins Ltd. Jointly promoted by your Company and Dwyer Industries, USA, this Company is engaged in the manufacture and marketing of a range of lignosulphonates. Overall performance of this Company is satisfactory. The Company is capable of manufacturing industrial lignosulphonates for the Dye, Pesticides, Cement, Refractory, Foundry and a host of other industries for which, I believe, there is good potential.

Bhavani Seeds & Agro Products Limited The Company is located in Bangalore. Activities of this Company are: procurement of seeds from growers, processing and marketing. Products are seeds of sunflower, cereals, pulses, vegetable crop and fibre crop.

The Company has successfully developed several hybrids, processing high productivity and desirable qualities. The Company's R & D cell liaises with the research departments of universities and agricultural research institutes to develop hybrid seeds. It is also planned to have collaboration arrangements with overseas companies for improved technology.

I.A.E.C. Boilers Ltd. This Company specialises in the manufacture of "Supertherm" package boilers with wet back design. Current performance of the Company is satisfactory and the order position for boilers is good. The Company is taking steps to upgrade the manufacturing facilities at Ranipet. The organisation is being revamped and strengthened to cope with the planned growth.

Mico Farm Chemicals Ltd. The Company's plant is located in Mettur. It supplies technical materials to pesticide formulators as well as formulated pesticides for the use of agriculturists. Although the Company's production and sales have been increasing, margins are under severe pressure because of frequent, steep hikes in the cost of inputs.

ACKNOWLEDGEMENT

On behalf of the Board of Directors and on my own behalf, I wish to express my sincere thanks to the Central Government, the Tamilnadu Government, depositors, bankers, financial institutions and the shareholders for their continued support.

APPRECIATION

Finally let me take this opportunity to express my thanks and appreciation for the contribution made by employees at all levels.

Note: This does not purport to be the proceedings of the Annual General Meeting of the Company.



SIV INDUSTRIES LIMITED

Regd. & Corporate Office: 1977-A, Trichy Road,
Singanailur, Coimbatore - 641 005, India.

Savings, Investment and Growth

Some Questions

Arun Ghosh

It must be an extraordinarily inept government which cannot (a) contain a balance of payments deficit on current account and (b) manage a rapid growth of the economy with a domestic saving rate of more than 24 per cent.

THE National Accounts Statistics, 1993 (hereafter NAS, 1993) are at long last out and the Advance Estimates of National Income given therein (p 218) indicate an increase in the GNP (at factor cost) in 1992-93 of 4.2 per cent over 1991-92.

Detailed information in regard to savings and capital formation is available only up to 1991-92. Gross domestic saving as a percentage of the GDP (at market prices) is stated to have gone up from 23.8 per cent in 1990-91 to 24.3 per cent in 1991-92. The corresponding figures of gross capital formation (as a percentage of the GDP at market prices) are 26.2 per cent in 1990-91 and 25.5 per cent in 1991-92.

In other words, the gap between domestic investment and domestic saving—which was required to be made good by the inflow of saving from abroad—was 2.4 per cent of the GDP in 1990-91 and 1.2 per cent of the GDP in 1991-92.

As indicated at the outset, the GDP growth in 1992-93 was more than 4 per cent; and though we do not have detailed data on savings and capital formation during 1992-93, one may *presume* that domestic savings would not have been less than 24 per cent of the GDP in 1992-93. One can, of course, be wrong in that surmise; indeed, it is likely that one is wrong in that surmise. That, in fact, is the starting point of this essay.

DEPLOYMENT OF SAVINGS FOR INVESTMENT

No one can dispute that a domestic savings rate of 24 per cent is highly impressive. But then, two questions arise. First, with a savings rate of more than 24 per cent, how come that we are likely to end up with a deficit in the current account of the balance of external payments, to the tune of \$ 5.5 billion in 1992-93? (vide Reserve Bank of India, *Report on Currency and Finance, 1991-92*, p vii). Essentially, we are back in the 1991-92 scenario, with an inflow of external savings of the order of 2.3-2.4 per cent of the GDP.

To put it differently, if we assume that domestic savings in 1992-93 were at least at the same rate as in 1991-92, was investment close to 26.5 per cent of the GDP? If so, where did this investment go, and to what effect?

Again, one can only speculate because the National Accounts Statistics give details of capital formation only up to 1991-92. And since we are speaking of *real* growth (not growth in money terms), let us take a quick look at the pattern of capital formation, as given in the NAS, 1992. Let us now cite some figures put out officially. Table 1 would make interesting reading. The figures speak volumes. Even though, as of now, we do not have figures of the break-up of capital formation in 1992-93, in the first year of 'stabilisation-cum-structural adjustment' (namely, 1991-92) we had a steep decline in investment in manufacturing and a decline, though not as steep, in investment in infrastructure. Of course, there has been a long-term trend of decline of investment in agriculture. These data include both public and private investment in agriculture; and it is seen that real investment in agriculture in 1991-92 was less than real investment in agriculture in 1980-81.

It is in the above background that one needs to *speculate* about the pattern of investment in 1992-93. How come we have an inflow of foreign savings of 2.3-2.4 per cent of the GDP

in 1992-93? Did total domestic investment really grow to 26.6 per cent of the GDP in 1992-93? Or is it possible that domestic savings declined from the level reached in 1991-92? If domestic savings declined, what are the inferences? What is the evolving pattern of saving in the economy, and what are the likely consequences? These are issues that we need to go into in some detail.

SOURCES OF SAVINGS

Again, we have detailed data only up to 1991-92, and we would need to draw inferences therefrom. Let us take a look at Table 2, giving a breakup of savings in India by 'sectors' (or institutions, as the CSO describes this table).

The first, most striking, feature of domestic savings is the overwhelming importance of household savings in India, which increased from 76 per cent of total savings in 1980-81 to 84 per cent of domestic savings by 1990-91. But the more important point to note is the rapid increase in financial savings, from 30 per cent of total savings in 1980-81 to 36 per cent in 1990-91, and further, to 39.6 per cent (or nearly 40 per cent) of total savings in 1991-92. *Per contra*, in 1991-92, household savings in the shape of physical assets (created directly without any financial intermediation) declined from 48 per cent in 1990-91 to 42 per cent in 1991-92.

The private corporate sector provided close to 8 per cent of total savings in 1980-81; and this percentage increased to 11.5 per cent in 1990-91 but declined marginally to slightly above 11 per cent in 1991-92.

TABLE 1: GROSS DOMESTIC CAPITAL FORMATION BY INDUSTRY OF USE

(Rs crore, at 1980-81 prices)

	1980-81	1990-91	1991-92
(1) Agriculture	4,636	4,642	4,580
(2) Manufacturing	4,844	10,098	9,937
(3) Electricity, gas and water supply	3,170	5,890	5,578
(4) Railways	814	1,055	964
Grand total (including other sectors and unclassified)	30,880	58,190	53,054
Percentage of Gross Capital Formation at Current Prices	1980-81	1990-91	1991-92
(1) Agriculture	15.0	8.5	8.5
(2) Manufacturing	15.7	22.9	18.3
(3) Electricity, gas and water supply	10.3	10.7	10.5
(4) Railways	2.3	2.2	2.0
(5) All other sectors	56.7	55.7	60.7

Source: NAS, 1993, pp 54-61.

The real problem has been government administration. From a positive saving of nearly 9 per cent of the total in 1980-81, this sector had a *dissaving* of nearly 12 per cent (of total savings) by 1990-91, which was partially arrested in 1991-92, when the dissaving of government administration declined to 8 per cent. *Per contra*, savings of government enterprises increased from a little more than 6 per cent (of total savings) in 1980-81 to 16 per cent in 1990-91 (with a marginal decline to 15 per cent in 1991-92).

The conclusions that follow are: (a) that in 1991-92 there was a sharp decline in household savings directly in the form of physical assets, compensated to a significant extent by an increase in household savings in the form of financial assets; (b) the savings of the private corporate sector have been generally low, of the order of 10 per cent of total savings in the community; and (c) government administration has shown a steep decline in savings—in fact, a small positive saving of around 9 per cent (of the total) became a dissaving of an average of 10 per cent over 1990-92.

Several questions arise. What is the nature and character of these financial savings of households? Is there *some* connection between government dissaving (and consequent deficit financing) and the increase in household saving in the form of financial assets? What are the plausible reasons for the steep increase in financial savings, and what has been the impact on the economy of the rapid increase in household saving in the form of financial assets?

We may also recall in this context that this development has been hailed in many circles (including official circles) as a triumph of the present economic policies and of the successful mobilisation of the community's savings by the banking sector. The latter point raises another question: how were such savings mobilised, and at whose expense? And where were these savings deployed? One should attempt some plausible answers to the above questions, though at this juncture, some of the answers suggested must remain of the nature of hypotheses. In order to derive even plausible answers to the questions raised above one should take a quick look at Table 3, which gives a summary of the major components of household savings in the form of financial assets, during the period under review.

The above figures are startling. First, of the total increase (in the gross financial saving by households) during 1991-92—amounting to Rs 14,429 crore—as much as 93 per cent (or Rs 13,424 crore) was contributed by deposits with banks and 'Units' of

the UTI. This was offset by a substantial decline in small savings (like National Savings Certificates) which traditionally accrue to the state governments. Thus, a considerable part of savings of households garnered earlier by the state governments was diverted to the UTI, a central government institution, primarily by the offer of an unusually high—one may say an unwarrantedly high—return by the UTI (a return of 25 per cent on face value, *plus* a

rights offer at a highly concessional price to holders of units under the 1964 scheme). The interest on new units purchased under the rights offer came to more than 20 per cent; and the expectation was that the UTI would not lower its rate of return (an expectation which has, in retrospect, been justified by the dividend of 26 per cent declared for 1992-93 and another rights issue at a concessional price). The important point to note in this context is that if households are

TABLE 2: GROSS SAVINGS IN INDIA BY SECTORS

	1980-81	1990-91	1991-92
	(Rs crore)		
(1) Household saving			
(i) Financial	8,610 (30.0)	45,088 (36.0)	58,583 (39.6)
(ii) Physical assets	13,238 (46.0)	60,057 (48.0)	62,667 (42.3)
(2) Savings of private corporate sector	2,284 (7.9)	14,393 (11.5)	16,633 (11.2)
(3) Public sector saving			
(a) Administration	2,559 (8.9)	(-) 14,613 (- 11.7)	(-) 12,038 (- 8.1)
(b) Department enterprises	245 (0.9)	3,663 (2.9)	4,674 (3.2)
(c) Non-department enterprises	1,850 (6.4)	16,541 (13.2)	17,540 (11.9)
Gross domestic saving	28,786 (100.0)	1,25,109 (100.0)	1,48,039 (100.0)

Note: Figures in parentheses are percentages (subject to rounding errors).

Source: NAS, 1993, pp 48-49.

TABLE 3: SAVINGS IN FINANCIAL ASSETS BY THE HOUSEHOLD SECTOR

	1980-81	1990-91	1991-92	Increase (+) Decrease (-) in 1991-92 over 1990-91
	(Rupees crore)			
Gross financial saving	12,118	58,298	72,727	(+) 14,429
(1) Currency	1,625 (13.4)	6,251 (10.7)	7,298 (10.0)	(+) 1,047
(2) Deposits				
(a) with banks	4,824 (39.8)	15,570 (26.7)	24,294 (33.4)	(+) 8,724
(b) with private companies	378 (3.1)	1,300 (2.2)	1,451 (2.0)	(+) 151
(c) with co-operatives	926 (7.6)	2,399 (4.1)	2,500 (3.4)	(+) 101
(3) Shares and debentures				
(a) private corporate	206 (1.7)	1,447 (2.5)	1,375 (1.9)	(-) 72
(b) co-operatives	208 (1.7)	220 (0.4)	227 (0.3)	(+) 7
(c) UTI units	31 (0.3)	3,300 (5.7)	8,000 (11.0)	(+) 4,700
(d) bonds of PSEs	—	497 (0.9)	520 (0.7)	(+) 23
(e) Mutual funds (other than UTI)	—	1,953 (3.4)	2,130 (2.9)	(+) 177
(4) Small savings	657 (5.4)	7,811 (13.4)	5,520 (7.6)	(-) 2,291
(5) Insurance funds	915 (7.6)	5,599 (9.6)	6,924 (9.5)	(+) 1,325
(7) Less financial liabilities	(-) 3,508	(-) 13,230	(-) 14,164	(+) 924
Total net financial saving	8,810	45,068	58,563	(+) 13,495

Notes: Totals may not tally because some small items (under components of gross financial saving) have been omitted for easy reference.

Figures in parentheses indicate percentages of gross financial saving.

Source: NAS, 1993, pp 190-91.

offered a rate of interest of 20 per cent or more for their savings, what is the expectation of profits to be made with new investments? In which industry are the prospects such as would attract investments under such expectations in the market?

Some other comments on the data contained in Table 3 are in order. Contrary to official claims, the total of new equity taken up by the households increased from 1.7 per cent of gross financial saving in 1980-81 to no more than 2.5 per cent in 1990-91; in fact, in 1991-92, the percentage declined sharply to 1.9 per cent. More importantly, there was a net decline even in the volume of such placements.

One would have expected currency holding to have come down faster than it has; and perhaps the slow rate of decline in this percentage—and a sizeable increase in the actual volume—may be ascribed to the increasing play of the 'black market' and of the parallel economy, arising from the laxity of the tax authorities in pinpointing such untaxed money. The state of the co-operatives is patently dismal. The emerging users of household savings are the UTI and the other mutual funds. Their share of total (gross financial savings by households) has gone up from 1.7 per cent in 1980-81 to 13.4 per cent in 1991-92. Part of the increase, regrettably, has been at the expense of small savings accruing to the states. And yet, if one were to add the percentage of UTI units, mutual funds and small savings, the percentage of household savings in these would be seen to have gone down in 1991-92 by one percentage point as compared to 1990-91. Also, regrettably, there has been a decline even in the percentage of savings garnered by insurance funds.

That financial assets have grown rapidly is obvious, though as noted earlier, this has been at the cost of direct capital formation by households. The implications would be seen later. The two questions that need to be first examined are: (a) who owns the financial assets? and (b) where are these funds deployed?

OWNERSHIP OF BANK DEPOSITS

We return now to an examination of the nature and pattern of bank deposits—one of the few areas where ownership data are available—the rationale for their growth, and the reasons for their decline in relative importance as a major source of financial saving. We now seek recourse to banking statistics, and draw some conclusions therefrom.

The first question is: who owns bank deposits? Unfortunately, the breakup of

ownership of bank deposits is readily available only from 1986 (end March) onwards. These data are given in Table 4. The only point of interest in the present context is the increase in the proportion of deposits held by farmers, which has increased from 10 per cent in 1986 to 12 per cent in 1990. Deposits by wage and salary earners have declined, as a percentage, and those by businessmen and traders have increased (though 1990 shows a decline in their share from the 1988 level).

Unfortunately, the latest *Currency and Finance Report* does not even give the credit:deposit ratio with a breakup of rural, semi-rural and urban areas. The ratio of advances to deposits (as per the *Currency and Finance Report* for 1989-90) indicates this ratio for December 1989; these ratios were 59 per cent for rural areas, 50 per cent for semi-urban areas, 57 per cent for urban areas, and 77 per cent for metropolitan areas. The concentration of bank advances, thus, was clearly in the metropolitan areas, and savings from the rest of the country were funnelled and deployed for lending in the metropolitan areas.

Let us look at another statistic pertaining to deposits. Table 5 gives the annual percentage increases in demand and time deposits of scheduled banks. The point to note above is the relative stability in the growth of time deposits—the annual increases varying between 17 and 20 per cent—and the relative volatility of demand deposits, in respect of which annual increases varied from 5 per cent to 25 per cent. Is it possible that the increase in time deposits arises from the increasing income of a certain class of people—obviously the more affluent sections—as a result of diverse economic policies of the government; whereas demand deposits, consisting of current account deposits maintained primarily by business and

trading classes, reflect the fluctuating fortunes and state of business activity? This is at best a hypothesis, but appears plausible. In the event, with the GDP growing at an average rate of some 5 per cent per annum during the 80s, time deposits growing at an annual rate of 17 to 20 per cent must reflect the increasing share of the incremental income going to a certain section of the population which chose to keep the incremental income in the semi-liquid form of time deposits rather than deploy the additional savings into less liquid assets. Does the fairly large and consistent deficit financing indulged in by the central government have anything to do with this phenomenon? This is a mere conjecture, not even a hypothesis.

The other point—and a major one—that arises is, how are the increased financial savings in the economy, scraped at the cost of real investments, being deployed today? To an extent, the capital market has grown visibly, and Table 3 bears testimony to this. But what is interesting is the large mobilisation of financial savings by public financial institutions, and their deployment,

TABLE 5: INCREASE IN DEMAND, TIME AND TOTAL DEPOSITS OF SCHEDULED BANKS
(Per cent)

	Demand Deposits	Time Deposits	Total Deposits
1982-83	19.1	17.0	17.4
1983-84	14.4	19.1	18.0
1984-85	24.9	17.9	19.3
1985-86	10.5	20.1	18.2
1986-87	23.2	19.6	20.3
1987-88	5.3	17.1	14.9
1988-89	15.3	19.4	18.7
1989-90	23.6	18.2	19.1

Source: *Currency and Finance Report* for 1989-90, p. 146.

TABLE 4: OWNERSHIP OF BANK DEPOSITS

(Percentages)

	1986	End March 1988	1990
(1) Government	6.1	5.2	5.8
(2) Corporate non financial sector	6.5	6.0	6.1
(3) Corporate financial sector	6.0	5.3	6.3
(4) Other institutions	9.3	8.1	8.0
(5) Individuals (including Hindu Undivided Families)	71.9	75.1	72.8
of which:			
(i) Non-residents	6.7	8.3	9.2
(ii) Residents			
(a) Farmers	10.1	11.7	12.0
(b) Businessmen	16.1	18.7	17.8
(c) Wage and salary earners	17.8	18.3	16.6
(d) Others (not classified)	21.2	18.1	17.2
	100.0	100.0	100.0

Note: Earlier reports do not give this breakup.

Source: RBI, *Report on Currency and Finance*, 1989-90, p. 170, 1991-92, p. 166.

not for real investment in the economy but for speculative trading in the Stock Market. Even the UTI has been responsible for this; it has to declare a dividend rate higher than 25 per cent declared in 1991-92—the 1992-93 rate is now 26 per cent—and since industry is in a slump, such dividends can be declared only on the basis of windfall gains from the Stock Market. The ghost of the late M J Pherwani—the original bull in the Stock Market—still hovers around the precincts of the UTI. The result: even as investments in crucial sectors of the economy—the railways, the power sector, universal intermediates—lag behind the needs of the economy, there is plenty of money to be pumped into the market for the purchase of existing shares. Never mind that the price:earnings ratio of these shares is too high even today; money can still be made through capital gains if foolish speculators—first-time investors—can be lured into investing in these shares in the expectation of capital gains.

This is a direct result of the 'directive' of the finance ministry in early 1991 to all nationalised banks to increase their profits (and dividends). As an inducement, the minimum rates of lending were unfrozen, bank lending rates were pushed up. Never mind that these high interest rates were not warranted by the profitability of investment; speculation can always increase profits. That is how international finance capital operates anyway.

One is reminded, in this context, of John Maynard Keynes' clear warning (in the Chapter on Long-Term Expectations, in his *General Theory of Employment, Interest and Money* (1936) (MacMillan, 1960, p 159): "Speculators may do no harm as bubbles on a steady stream of enterprise. But the position is serious when enterprise becomes the bubble on a whirlpool of speculation. When the capital development of a country becomes a by-product of the activities of a casino, the job is likely to be ill-done."

The stock market 'scam' being investigated by the Joint Parliamentary Committee was clearly the result of the government's economic policies: by way of an extraordinary increase in the rate of interest, crying off from meeting the major investment needs of the economy and yet, at the same time, promoting the growth of financial savings, prodding the banks to increase their profits, and lauding the stock market boom as a sign of the success of the government's economic reform policies.

CONCLUDING REMARKS

Where does all this lead us? We go back to the National Accounts Statistics which

indicate a rate of domestic savings at 23.6 per cent in 1990-91 and 24.3 per cent in 1991-92. Let us take a quick look at the savings rate of industrially developed countries. According to the *World Economic Outlook* published by the IMF in May 1993 (p 31), the rate of national savings of all industrially developed countries in 1992 was some 18 per cent of the GNP and, for the seven industrially most developed countries, this percentage was around 17.5.

We have also had six consecutive years of good monsoon—an unprecedentedly lucky break—and up until 1990-91 a high rate of industrial production growth.

And yet, even in 1992-93, we have a balance of payments deficit of \$ 5 billion, and a predicted need for 'extraordinary external financing' (to the tune of some \$ 2 to 3 billion annually) for the next few years. This is over and above the net flow of long-term external aid of around \$ 2 billion annually. As per the Reserve Bank of India, our external debt, as of the end of September 1992 was \$ 87 billion (*EPW*, June 5, 1993, p 1153) against a total external debt of no more than \$ 20 billion at the end of 1980 (vide World Bank, *World Debt Tables*).

It must be an extraordinarily inept government which cannot (a) contain a balance of payments deficit on current account and (b) manage a rapid growth of the economy with a domestic savings rate of more than 24 per cent. With this high rate of domestic saving, investment in agriculture has been going down in real terms—we are using the same official statistics—and investment in infrastructure is declining even faster. If, in the coming years, the railways, power supply and other infrastructure and universal intermediates start faltering, we know the reasons; the ground for this development is being laid today. If foreign investment is shy—except for Coca Cola, MacDonald Hamburgers and other junk food—is it any surprise?

This essay has become long enough. The issue that the country has to face is: this country is strong domestically, as the National Accounts data reveal. Why do we seek to deliberately weaken it through certain misconceived policies on the external front? Who gains from 'globalisation' of the economy, in the manner in which we are proceeding, and at what cost, and at whose cost?

Monthly Review

Editors: Paul M. Sweezy
Harry Magdoff
Leo Huberman (1903-1963)

Founded in 1949 in response to Cold War hysteria and repression, Monthly Review made the case for Socialism at a time when McCarthyism made the consistent and fearless advocacy of radical ideas a dangerous business. Albert Einstein's moving article "Why Socialism?" was published in Vol. 1, No. 1 of Monthly Review in May 1949.

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NEW DELHI

Government's Disappearing Options

BM

Fresh elections to change the political arrangement put together two years ago for the running of what passes for the government of India have become imperative for preserving the democratic order and for reviving the impulses for growth and equity in the economy and society.

THE prime minister, having managed somehow to survive the no-confidence motion in the Lok Sabha, predictably used the occasion of his customary address on independence day to indulge in a frail exercise in populism. The announcements that he made about providing opportunities for employment or giving monetary assistance to women and minorities were so lacking in conviction that they cannot possibly give the kind of political-electoral returns that Indira Gandhi, the master practitioner of populist politics, had been able to secure. It was, therefore, a futile exercise and has been widely dismissed as pointless and even counter-productive. But it was also seen as an admission, notwithstanding assertions to the contrary, that Rao and the Congress(I) are getting jittery as elections to the four state assemblies are drawing near. It is taken for granted in political circles that another general elections for the Lok Sabha will become unavoidable after the assembly elections.

The overall economic, social and political environment is today such that populist gestures have lost their appeal both for the mass of the people and the vested interests in society. They are seen to be in conflict with the thrust of the market-friendly economic policies and the leadership role assigned to private enterprise in the economic growth process. The World Bank/IMF combine is bound to frown on such 'wasteful' expenditure by the government. It can be taken for granted that no finance is going to be made available for the schemes announced by Rao, at least in the current year when negotiations are under way with the IMF for an extended fund facility loan. The fact, after all, is that commitments made even in the central budget for populist schemes in the last two years have not been honoured. The IMF/World Bank combine, on its part, is keeping a close watch on the government's economic policies and performance as well as its political position. The basis of the negotiations for the EFF loan from the IMF and for structural adjustment loans from the World Bank is a further compression of public investment in industry so that the economy gets deeper into the morass of

recession. Meanwhile, foreign investors are seeking further special terms and privileges in the Indian market before actually undertaking investments even in areas already opened up for them on exceedingly preferential terms. The so-called 'economic reform' process as delineated by the IMF/World Bank is turning out to be a long-drawn exercise with no sign of a return to economic growth, let alone social equity, yet in sight. Side by side, the spectre of political instability is looming large.

Official propagandists and publicists, meanwhile, regularly dish out statistics to claim success for the economic reform programme. But the successes so claimed are presented in terms delineated by the World Bank/IMF combine as part of the conditionalities attached to the foreign credits from diverse sources. There is much excited talk about reduction of the fiscal deficit, improvement in the position of exchange reserves, inflow of foreign credits and direct foreign investment, improvement in the supplies of quality goods and services in the domestic market, and so on. But what is happening to the living standards of the people, to production and supplies of goods and services of essential mass consumption, to alleviation of poverty by generating new employment and new incomes receive hardly any attention in these official presentations. Even the sluggish rate of investment and growth of the economy is ignored. The decline in the rate of inflation is claimed as a great achievement. But the fact is obfuscated that the deflationary measures, especially the sharp cuts in public investment on the expansion and strengthening of the material as well as social infrastructure, have already exacted a heavy toll. The government itself is aware that it is caught in a catch-22 situation. It has to fall in line with the latest World Bank assessment that macro-economic stability has still not been achieved after more than two years of economic reform and structural adjustment and that a return to the growth path is still not in sight. The withdrawal of budgetary support for public investment, especially in the infrastructural sector, has put the economy in a vulnerable position. Central public sector undertakings are failing to raise funds from the market to meet even their maintenance needs and ensure efficient functioning. The fall in

investment in the infrastructural sector has led to stagnation of vital industries such as steel, cement and engineering. Industrial production as a whole has slackened, with a negative growth rate in the last quarter of 1992-93. There has been no significant improvement in the current year either. This is emphasised by the fact that there has been no pressure for imports in spite of the highly liberalised import policy. With demand in the domestic market stagnating, business interests may well be making efforts to find export markets at least to cover their fixed costs. This may have helped to stabilise the exchange value of the rupee for the time being. But industrial growth is not picking up. If the present trend continues, industrial growth is not likely to be more than 2 to 2.5 per cent in 1993-94.

The stagnation in industrial production and imports has also caused serious shortfalls in tax revenues. The shortfall in customs revenue during the first quarter of 1993-94 is said to have been as high as 30 per cent. On top of this, the government has been unable to sell shares of public sector enterprises so far this year, though the 1993-94 budget expects the government to collect as much as Rs 3,500 crore through this route. The net result of all this is a high budgetary deficit. Net Reserve Bank credit to the central government in the current financial year to June 11 stood at Rs 10,065 crore, up by nearly Rs 3,000 crore compared to the corresponding period last year. In addition, the government has been mobilising funds through the sale of 182/364-day treasury bills. Nearly Rs 4,000 crore have been collected already this year through this route as against the budgetary provision of Rs 6,000 crore for the whole year. It is now clear that the target for reducing the fiscal deficit to 4.7 per cent of GDP in 1993-94, regarded as the primary indicator of the stabilisation process, will not be achieved and the deficit is likely to be as high as 5.7 per cent of GDP, if not more. Macro-economic stabilisation requires a drastic reduction in government spending and increase in government revenue. This is not happening and is not likely to happen, even as the government has committed itself to reducing corporate tax rates next year along with a further reduction in customs duties. Failure to achieve macro-economic stabilisation for as long as two years already and for yet another year will surely undermine the much-vaunted 'reform' programme.

The external balance of the economy too is still very unsteady. The Reserve

Bank has managed to keep the rupee (ceiling) rate unchanged at Rs 31.36 per dollar. This is to be attributed to slack demand for imports because of the recession. If economic activity picks up, this position will not last and the exchange value of the rupee will fall, since exports are still making only moderate headway and foreign investment is not flowing in on the expected scale. Total direct foreign investment inflow so far has been only \$ 70 million or so in 1993-94. It is not surprising that foreign investment is not picking up as fast as was expected when the structural adjustment programme was launched. Finance minister, Manmohan Singh when he was picked to implement the new economic policies had said that he would be able to attract \$ 6 billion of foreign investment in a period of two years. Actually foreign investment seems to have touched a plateau already, with the government able to induce over two years, with the aid of a plethora of special concessions and incentives, commitments for \$ 600 million only. Pressure is being stepped up by foreign business interests, backed by World Bank/IMF, for even better terms and conditions. The government has been told that it has to do much more. As an earnest, it was required to join MIGA, the multilateral investment guarantee agency of the World Bank. An official of the World Bank had publicly mocked India's hesitation in doing so by remarking drily that presumably the government in India thought that it had done all that was necessary to attract foreign investment. It was a warning that the government had to fall in line on measures to attract foreign investment.

The row over the setting up of a 'Japanese City' in India between Chandrashekhar and Manmohan Singh in Lok Sabha is noteworthy in this context. Chandrashekhar was briefly a prime minister on Rajiv Gandhi's sufferance and he had agreed to the preparation of a feasibility report for the Japanese city. The study by a Japanese agency and funded by the Japanese is now nearing completion. It would attract Japanese and other foreign direct investment and was, therefore, "a very good decision", according to Manmohan Singh. The signing of MIGA is thus not enough. What is proposed is the setting up of dependent industrial units which function either as ancillaries or assembly workshops of foreign business interests. Foreign investors, mainly multinational corporations, require what may be described as exclusive territorial concessions for residential and recreational facilities for management personnel and units of production for setting up enclaves of highly capital-intensive infrastructural facilities and industrial structures to subserve their global operations in which Indians will provide cheap services as coolies. This is what the proposed Japanese city in India is all about.

Once established, it will become the model for setting up other 'foreign cities' in India. Bilateral investment protection treaties, not just commercial agreements, are proposed to be entered into with countries which are regarded as major sources of direct foreign investment. These treaties will provide special dispensations for foreign ventures and expatriate personnel.

Entrenched vested interests at different levels are indeed tending to get reckless even as the functioning, or rather non-functioning, of what passes for the central government is assuming tragic features. Skirting charges of corruption, including specifi-

cally against the prime minister himself, is no way to assuage public feeling, let alone win public confidence. Overtures to the personal interests of sitting MPs, such as the offer of Rs 1 crore to each of them to play with in their constituencies, are no way to stave off a general election. A fresh electoral mandate has indeed become unavoidable and a change of the political arrangement put together two years ago for the running of what passes for the government has become imperative for the preservation of the democratic order and for reviving impulses for growth and equity in the economy and society.

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* LAST DATES

- * For requesting for application forms: **September 30, 1993**
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Karbi Anglong Revisited

Dipankar Bhattacharya

The restoration of the autonomous council of the hill district of Karbi Anglong has accorded renewed recognition to the autonomy movement in the region, led by the Autonomous State Demand Committee the only tribal autonomy movement in the country spearheaded by communists and waged with a consistent revolutionary-democratic orientation.

KARBI ANGLONG is back in the news. With the recent Guwahati High Court verdict quashing the Assam government's order dissolving the autonomous council of this hill district and the subsequent withdrawal of the state government's appeal against this order in the Supreme Court, the district council stands restored to the Autonomous State Demand Committee (ASDC) which had an overwhelming majority in the dissolved council. And this restoration has taken place not as part of any deal between the ASDC and the Congress(I) at either state or central level, but with the ASDC standing firm in the forefront of the anti-Saikia opposition in Assam and the lone ASDC MP voting in favour of the no-confidence motion in the Lok Sabha. The significance of the ASDC's victory becomes more obvious when it is viewed in contrast to the fate suffered by the much more well known Jharkhand movement. The Jharkhand Mukti Morcha today stands polarised with four JMM MPs joining the 'rescue Rao' operation and two siding with Laloo Yadav, without, of course, even an inch of pragmatic progress to any kind of autonomy for the Jharkhand region and the Jharkhandi people.

Evidently, the restoration of the democratically elected popular ASDC-led district council marks a significant defeat of the Saikia government in its running battle with the eight-year old autonomy movement of Karbi Anglong and North Cachar Hills. In fact, the dissolution order issued in November last year was in itself a confession of desperation and defeat on the part of the wily, old Congress(I) war-horse. The dramatic midnight announcement of dissolution was preceded by rounds of bipartite and tripartite negotiations involving the state government, union home ministry and the ASDC leadership. During negotiations, the Congress(I) had offered to enlarge the district council's existing jurisdiction by throwing in a few additional departments and upgrade the autonomous district to the status of an autonomous territory in lieu of ASDC giving up its demand for an autonomous 'state within state' as promised in Article 244A of the Indian Constitution. This was a perfect political ploy to derail and co-opt the movement or at any rate to divide the organisation over the very demand which has given it its name and much of its *raison d'être*. And it was the ASDC's steadfast refusal to trade its principled position and basic demand for a vague and opportunistic notion of 'more power' which

earned it the wrath of the state government and the subsequent dissolution of the elected council. The struggle for implementation of Article 244A, the ASDC correctly emphasised, is a battle for upholding the limited federalising potential of the Indian Constitution and defending and stretching the federal space in our polity in the face of the Indian ruling classes' relentless drive towards increasing centralisation of economic and political power.

PROTEST AGAINST DISSOLUTION

But for once Saikia's calculations went awry and the dissolution move simply backfired. Far from demoralising the ranks of ASDC and its allied student organisation, the Karbi Students' Association (KSA), it only sparked off a new phase of militant popular activism in the district. Beginning with a massive march to Diphu (the district headquarters), a symbolic occupation of the district council office and a powerful siege of the district administration, the district and for that matter the whole of Assam was soon rocked by a series of demonstrations and bandhs including a highly effective week-long strike in the hills from May 22 to 28 defying the combined terror campaign of the administration and Congress(I) goons.

The period also witnessed a marked expansion of the ASDC's influence and organisation in the neighbouring district of North Cachar Hills where the district council is still held by the Congress(I) and a striking transformation of the hitherto pro-Congress North Cachar Hill Students' Federation (NCHSF) into a powerful third wing of the movement alongside the ASDC-KSA combine. The KSA won a decisive victory in students' union elections in the traditionally Congress-dominated Diphu College and in May the ASDC successfully held its second conference followed by the biggest ever mass rally in the history of Diphu.

Apart from this remarkable resurgence of the ASDC-led autonomy movement, the blatantly authoritarian dissolution order also drew strong protests from the whole range of democratic opposition in Assam. While Congress(I) leaders did not dare to face the people of Karbi Anglong, leaders of almost all other parties and organisations barring BJP and AGIP paid solidarity visits to the district. The ASDC emerged as a key factor in Assam politics, instilling a sense of unity, purpose and direction among diverse streams of democratic forces in the state. The great relevance of the ASDC experience for the Left movement in Assam could also be seen in appropriate perspective in the impressive May Day rally of the CPI(M) in Guwahati.

It is this combination of factors—the growing popular appeal of a nationality movement, pressure of broad democratic opinion and the strength of a unified, principled leadership—which has forced the Guwahati High Court to reject the dissolution order after months of judicial dilly-dallying and compelled the state government to withdraw its appeal from the Supreme Court.

By successfully foiling the Congress(I)'s design of 'crush and co-opt' and inflicting such a major legal and political defeat on its shrewd, powerful adversary, the ASDC-led autonomy movement has surely carved out a distinct place for itself among all the national/regional autonomy movements in today's India. Behind this distinction lies a fundamental political truth which is still little discussed in the media. The ASDC movement is the only nationality movement led by communists and waged with a consistent revolutionary-democratic orientation. The ASDC MP and the chief executive member of the district council, Jayanta Rongpi is a central committee member of the CPI(M) while the leader of the four-member ASDC legislature party in Assam assembly, Iloliram Terang, is a member of the CPI(M)'s Assam state committee. A Special party committee guided directly by the CPI(M) central committee runs the party's affairs in Karbi Anglong and North Cachar Hills.

At a time when the communist banner is supposed to be losing out to the militant upsurge of ethnic identities almost all over the world, it is refreshing to find the CPI(M) strike such strong roots in one of the smallest tribal autonomy movements of India. It is all the more significant because the 'nationality front' has been one of the weakest points of Indian communists. The failure of the communist leadership to project a democratic vision of India's unity and integrity and develop an independent approach to nationality movements has in the ultimate analysis always left Indian communists in the embarrassing political company and ideological shadow of the Indian state and parties of the ruling classes vis-à-vis all streams of ethnic movements which are treated as per se separatist, reactionary and anti-national. While this has disturbingly alienated Indian communists from the overwhelming majority of oppressed tribes and nationalities, the ASDC experience reveals the tremendous potential of nationality movements in India's democratic revolution. Instead of falling prey to any narrow ethnic exclusivism, under communist leadership ASDC has grown as a bridge of unity, bringing together people from diverse tribes into the common battle for regional autonomy and thus establishing a basic principle for reorganising India's unity on a federal democratic basis.

The ASDC experience also deserves to be studied from the Marxist perspective

of running local government. It is instructive to note that the dissolution of the Karbi Anglong Council has been the second clear case of dismissal of a communist-led government since the toppling of the EMS Namboodiripad government in Kerala in 1959. Of course, there are very many major differences between a district council under the Sixth Schedule of Indian Constitution and a full-fledged state government and also between the contexts of Left-led governments in Kerala and West Bengal and the ASDC-led district council of Karbi Anglong. From the point of view of communist practice, the latter context is in fact more challenging in several ways—not only because of the severely limited power and resources of a district council, but more so because of the obvious constraints of a nationality movement. Yet judged against the revolutionary Marxist yardstick of running local governments, the Karbi Anglong experience stands out with a much higher degree of consistency and relative success than, say, the 16-year old Left Front government of West Bengal.

A key test of a communist-led local government is its role as a revolutionary opposition to the bourgeois central authority. In its very first session, the ASDC-led district council had openly dedicated itself to the cause of the autonomy movement and its entire tenure so far (1989-92) has naturally been marked by ceaseless friction with the state and central governments culminating in the eventual showdown of the November 1992 dissolution order. By contrast, the Left Front government has offered little practical opposition to the centre except for its initial attempts at championing the constitutional debate on centre-states relations and occasional theoretical rejoinders to certain policy pronouncements of the central government. In fact, co-operation with the centre and the Congress(I) high command has become a standard (CPI(M) method to contain the Congress(I)'s challenge inside West Bengal.

As regards the task of promoting class struggle and enhancing the democratic consciousness of the masses, conditions have of course been immeasurably more complex for the ASDC in Karbi Anglong than the CPI(M) in West Bengal. The process of formation and polarisation of classes cannot but proceed at a much slower pace within the Karbi community than in any developed 'mainstream' nationality elsewhere in the country. Yet the ASDC-led council paid considerable attention to the agenda of agrarian reforms, treating the peasant problem as the essence of the national question in the region. In the context of Karbi Anglong, the package of agrarian reforms included decisive steps to tackle the problem of land-alienation among the peasantry like freeing their mortgaged land from the clutches of moneylenders and other vested interests, distribution of land pattas through combined efforts of the revitalised land settlement advisory board and the peasant masses, and promotion of co-operatives, mutual aid centres and similar agencies to encourage

modern, high-productivity farming. In the urban areas of Karbi Anglong and North Cachar Hills, the ASDC extended active encouragement to initiate and strengthen trade unions, a move with clear class connotation in the apparently above-class context of regional autonomy. After 16 long years in power, the Left Front government of West Bengal, on the other hand, seems to have run out of all its imagination and initiative on the agrarian front—it is able neither to step up the sagging land distribution or operation barga campaign nor to introduce or enforce higher tenancy shares or wages, let alone taking the next logical leap to co-operative farming. And its entire agenda of class struggle and democratic rights has been overshadowed by its ever-growing obsession with 'stable government', 'law and order', 'industrial peace' and 'work culture'.

Also worth noting is the fact that while 16 years of Left Front rule in West Bengal have decidedly failed to catch popular imagination even in neighbouring states like Assam, Bihar and Orissa, the ASDC's short stint in power has already endeared the movement to the general people in North Cachar Hills and to all sincere forces fighting for regional autonomy and genuine federalism in differ-

ent parts of the country. While the AGP in power got identified as a government of Assamese chauvinism thereby inviting all-round alienation from the various tribal communities and linguistic minorities in Assam, ASDC in power has also succeeded in winning the trust of different sections of non-Karbi population within Karbi Anglong. Instead of becoming just an organisation of the Karbi people or getting confined to the affairs of the district council, ASDC has shown the potential of moving towards a broader unity not only of other regional democratic forces in Assam but also of different tribes, nationalities and ethnic identities in the entire north-east.

In sum, the restoration of the district council has accorded renewed recognition to the Karbi Anglong autonomy movement as a treasurehouse of valuable lessons—lessons for the forces of nationality movements confronted with the ruling classes' 'crush and co-opt' strategy, for democrats looking for answers to the institutionalised tyranny of the Indian state and also for communists grappling with the problem of linking local governments with the strategy and tactics of India's much-awaited democratic revolution.

KARNATAKA

Lobbies Fuel Dissidence

Ambrose Pinto

The current dissident activity in Karnataka is being fuelled by the liquor lobby and the capitation fee lobby which have suffered at the hands of Veerappa Moily.

VEERAPPA MOILY, present chief minister of Karnataka was the most vocal dissident eight months ago when he was in the Bangarappa cabinet. Now in the very chair of the chief minister he is experiencing a similar revolt from his party men. Those opposed to Moily though small in number have asked the high command to effect a change in the leadership of the party in the state immediately.

According to the dissidents there are 56 legislators who belong to their camp. Ramalinga Reddy, the minister of state for large and medium industries has asserted in no uncertain terms that the signatures of 30 MLAs have been forged. The number given though important is not very significant at present. Moily still has over a hundred MLAs on his side. At this point the high command is not likely to concede the dissidents' demand.

When he came to power Moily had promised to provide a clean administration in Karnataka. No one has questioned his probity and integrity. There are no corruption charges labelled against Moily by any of his partymen. The state administration has been streamlined to a large extent. The only weakness of Moily has been the inability to implement much of his promises made in public statements.

The allegation against Moily are about his style of functioning. It is true that Moily has been making public statements about matters relating to departments which do not directly come under him. Moily's announcement on power cut relaxation when deputy chief minister is in-charge of Karnataka Electricity Board and Karnataka Power Corporation had angered the deputy chief minister, S M Krishna. The chief secretary's announcement of additional funds for upper Krishna river project when the deputy chief minister is in-charge of the portfolio has further alienated S M Krishna from the chief minister. Rajshekar Murthy, the revenue minister is unhappy because he was ignored in the transfer of deputy commissioners and tahsildars coming under the revenue department. Some of the deputy commissioners' transfers were against his wish. Even his recommendations were ignored. Given the cosmopolitan nature of Bangalore many state officials do not want to move away from the city. Money changes hands at the political level even for transfers. Knowing the situation well, recommendations over transfers from politicians have not found favour with Moily.

The prerogative of effecting the transfer of top officials like IAS, IPS and KAS is of

the chief minister. But a convention has emerged over the years that the chief minister consults the minister in-charge and the cabinet prior to such postings. This convention, it is alleged, is not duly honoured. From the reports it looks that Moily has taken unilateral decisions.

The chief minister is also criticised for his total dependency on the bureaucrats. During the Bangarappa regime, the civil service was demoralised. Corrupt officials were promoted. Honest officials were given unimportant portfolios. Those who were close to the chief minister were those against whom there were serious corruption charges. While cleansing the administration, Moily has given a place to the civil service that is legitimately theirs. There is no politicisation of the bureaucracy at present.

Therefore the allegations made by the dissidents do not fully explain the revolt against the chief minister. There are deeper reasons. What is shocking is that the dissident activities are spearheaded by the deputy chief minister, S M Krishna and M Rajshakar Murthy, the revenue minister. The loyalists have demanded the ouster of both these from the cabinet. The minister of state for large and medium industries, Ramalinga Reddy and several other loyalists had sought disciplinary action against those divisive forces within the party. Their allegation is that these forces are collaborating with forces inimical to the party which appears to be a euphemism for the BJP. With the BJP acquiring strength in Karnataka it may be true that there may have been informal consultation between one section of the dissidents and the BJP. In fact, the dissidents have threatened to take recourse to a different plan of action if the high command does not accept their demand for a change of leadership. Does this threat mean that they are going to join the BJP? One has to wait and see.

Veerappa Moily is the third chief minister after the party was voted to power in 1989. Veerendra Patil had to go because he displeased the liquor lobby and was not in a position to satisfy the party high command in Delhi. Bangarappa was so close to the liquor lobby that he could not promote the interests of the state. His name became synonymous with corruption. Just eight months in office, the high command cannot afford to change Moily now. The party has to face the panchayat elections in December 1993. The elections to the state legislature are scheduled for November 1994. At this point the party can ill-afford to have a fourth chief minister. The electorate is not likely to view kindly the repeated changes in chief ministership. The party would become a laughing stock.

Besides, people on the whole are not dissatisfied with Moily. After Bangarappa who had thrown all principles in public life to the wind, Moily had instilled some amount of public confidence in the government. In fact, the loyalists have pointed out the stability in political, administrative and financial spheres after Moily took over the administration.

There are hurt egos behind the dissidence, no doubt. Both S M Krishna and Rajshakar Murthy were contenders for the chief ministership when Bangarappa was replaced. The nomination of Moily had not been favoured by both. Rajshakar Murthy had desired the finance portfolio, one he held effectively under Veerendra Patil besides revenue. Political exigencies had forced Moily to request S M Krishna to resign his post as speaker and join the cabinet as deputy chief minister. S M Krishna is still not satisfied with the office. Public works minister K K Ranganath and law minister Haranahalli Ramaswamy who had stood by Moily in the ouster campaign of Bangarappa have felt let down by Moily's allocation of relatively unimportant portfolios. Moily has also kept key portfolios—finance, industry and home—with himself. Then there are those loyalists of Bangarappa who are determined to oust the chief minister and willing to join forces inimical to Moily.

The issue is still deeper. Karnataka politics is not intelligible apart from the socio-political matrix of the state. The vokkaligas and the lingayats are the two major political communities in the state, numerically strong and economically sound. Ever since the Karnataka state came into existence both these castes have vied for political power and patronage. They have occupied over 50 per cent of the assembly seats though they constitute only 28.7 per cent of the population. The extent of the political domination of these two groups can be judged by the fact that of the 14 chief ministers the state had to date, the first three were vokkaligas and six others were lingayats. The other five chief ministers could survive only by placating key lingayat and vokkaliga leaders. Both these groups feel ignored and humiliated at present.

S M Krishna had built himself up as the leader of the vokkaligas while Rajshakar Murthy is considered as the leader of the lingayat lobby. Moily hails from the backward class community. In his administration while trying to appease both the dominant groups, he has followed certain norms in public life which has angered both the vokkaliga and lingayat lobbies. In north Karnataka the lingayats are a majority. The posting of deputy commissioners belonging to the scheduled castes to seven districts of the area has displeased Rajshakar Murthy. On account of reservation several members of the scheduled castes have got selected as IAS officers. Their promotion has irked the dominant castes. After the Ummattor and Badanvalu incidents where there were atrocities on Harijans several officers belonging to the lingayat community from Mysore district have been transferred. This has angered several lingayat legislators. The SC police officers have not been disturbed.

S M Krishna's closeness to the liquor lobby is no secret. A close associate of Bangarappa, S M Krishna was the candidate of Bangarappa for chief ministership. The party high command preferred Moily. S M Krishna and his associates from the vokkaliga

community were displeased. After taking over as chief minister, Moily has eliminated the business of seconds and has brought arrack packaging under government control. Moily has claimed that his government will save Rs 100 crore in bottling charges through introduction of sachets and gain almost four times by way of revenue through a further restriction of seconds. The liquor lobby in close association with dissidents are also in the ouster game.

Then there is the capitation fee lobby in the state. The state government's decision to implement the Supreme Court directive on admission norms to professional colleges has angered the capitation lobby. The state has four government medical colleges and 15 privately managed medical colleges. Out of a total of 51 engineering colleges, 35 are private and 11 are semi-aided. The annual intake of medical colleges is 3,000 while the engineering colleges admit 18,300 students. Most of these privately owned colleges have enjoyed government patronage. Both the major communities, lingayats and vokkaligas own several capitation fee colleges. Given their power in the legislature, it has been difficult to break the nexus between politicians and college managements. The Supreme Court's verdict that "there shall be no quota reserved for the management or for any family, caste or community which may have established the institution" has further angered the colleges.

According to the Supreme Court's directives 50 per cent of the seats are free seats and the other 50 per cent are payment seats, both based on merit. The present fee for engineering students fixed by a committee appointed by the state government is Rs 4,000 for free seats and Rs 20,000 for payments. It is Rs 5,000 for free seats and Rs 55,000 for payment seats in medical colleges. The capitation lobby that has commercialised education in Karnataka is averse to such policy decision.

Both S M Krishna and Rajshakar Murthy are being pressurised by the powerful lingayat and vokkaliga lobbies which own many of these colleges to exert influence in their favour. The nauts have even asked prime minister's intervention to avoid confrontation between the managements and the government. But the state government is in no mood to relent. The education minister has even threatened to take over colleges if they do not abide by the Supreme Court verdict.

Behind the present dissidence there are the vested interests patronised by the capitation fee lobby and the liquor lobby. The meetings of the dissidents have also taken place on caste lines. In fact, Moily who had promised to implement the Chinnappa Reddy Commission report on the backward class list in Karnataka has not been able to keep up his promise. The committee has recommended exclusion of both the lingayat and vokkaliga communities from the backward class list. Given the political equations at present and the social structure of the Karnataka polity, Moily is not likely to succeed in implementing the Commission report.

Ideology and Politics of Jharkhand Movement

An Overview

Arunabha Ghosh

While the Jharkhand movement has overcome some of its initial weaknesses and broadened its base to become more regional than ethnic, it still lacks an ideological bond. This has given rise to factionalism and to personalities taking precedence over collective interests.

THE movement for a separate tribal homeland in the central tribal belt of India has drawn the attention of researchers and politicians alike over the last couple of decades or so. Though the leaders of the movement contemplate a Jharkhand state comprising 25 districts of Bihar, Orissa, West Bengal and Madhya Pradesh, the movement basically centres around 16 districts of south Bihar. In fact, the leaders of the movement themselves have differed time and again regarding the areas to be covered by the proposed state and the strategies to be adopted to achieve their goal.

The demand for a 'separate administrative unit' in the Chotanagpur region was first placed before the Simon Commission in 1928.¹ Chotanagpur Umat Samaj under the leadership of Bishop Van Hooek and Juel Lakra submitted a memorandum to the Commission asking for special privileges for the tribals. Later under the Government of India Act, 1935, the Chotanagpur and Santal Pargana region was declared as 'partially excluded areas' by the British government in order to keep the area within the exclusive preserves of the foreign administration.

However, the demand for a separate province for the tribals in the region was mooted for the first time by the Adivasi Mahasabha under Jaipal Singh, during its second session in 1939.² With the formation of the State's Re-organisation Commission after independence, a memorandum signed by 34 Jharkhand Party MLAs of Bihar was submitted to it on the question of the 'formation of the State of Jharkhand' within the 'national and constitutional framework of India'.³ The memorandum claimed an area of about 63,859 sq miles with a population of 1,63,67,177 to constitute the proposed state.

Curiously enough, after the merger of the Jharkhand Party with the Congress in 1963 Jaipal Singh himself expressed doubt over the practicability of a separate state of Jharkhand 'as we could not provide even five engineers from amongst ourselves' (*Hindustan Times*, April 23, 1987). However, in a subsequent memorandum submitted by the Jharkhand Party to the prime minister, Indira Gandhi on March 12, 1973, the old demand for the 'creation of a new state of Jharkhand' was revived. The total

area of the proposed state was said to be 1,87,646 sq km (i.e. 72,457 sq miles approximately) with a population of 3,05,98,991.

In 1977, during Janata rule in Bihar, all political parties including the Congress and the Janata Party favoured the idea of a separate state for the Chotanagpur and Santal Pargana region.⁴ The Jharkhand Party in its demand included in addition the adjoining areas of Orissa, West Bengal and Madhya Pradesh. In 1987, the newly formed student outfit—the All Jharkhand Students' Union in a memorandum to the then prime minister, Rajiv Gandhi gave an ultimatum to the central government to constitute a separate Jharkhand state in 1988.⁵ According to the memorandum the proposed state was to comprise 21 districts from four states with an area of 1,87,646 sq km and a population of four crores approximately. In a similar memorandum to the president of India in 1989, the Jharkhand Mukti Morcha pleaded for the 'formation of Jharkhand state within the Union of India'⁶ comprising the districts of Ranchi, Gumla, Lohardaga, Palamau, Singhbhum, Giridih, Hazaribagh, Dhanbad, Deoghar, Godda, Sahibganj and Dumka of Bihar; Mayurbhanj, Keonjhar, Sundergarh and Sambalpur of Orissa; Purulia, Bankura and Midnapur of West Bengal and Raigarh and Surguja of Madhya Pradesh.

In a significant turn of events over the last couple of years, the leaders of the movement have, however, decided to confine their demands only to 16 districts of south Bihar at least for the time being (*The Statesman*, July 21, 1990). They of course pledge to achieve their ultimate goal of a 'Vrikat Jharkhand Rajya' comprising no less than 25 districts⁷ from four states at a later stage.

IDEOLOGY

Though generally depicted as peace loving and non-confrontationist by nature, tribals in India have a long tradition of fighting against imperialism and feudal oppression. During the last quarter of the 18th century and throughout the 19th century tribals fought against British expansionism and thwarted efforts to challenge their rights over land and forest. The anti-colonial, anti-feudal content of the Chuar Rebellion (1798-99),

Kol Ulgulan (1831-32), Santal Hool (1855) or the Birsa Munda uprising (1895-1900), to name the most famous ones, is well known. All these movements were basically manifestations of agrarian grievances. They tried to protect the local aborigines from the clutches of the 'diku' (outsider) mahajans, rent-collecting 'thikadars', and exploiting zamindars. However, such occasional outbursts of tribal discontent during the colonial era were basically localised in nature and could not sustain itself for long in the face of a mahajan-zamindar-British nexus.

Tribal protests during the first half of the present century often became a part of the overall struggle for freedom against the colonial masters. Tribal peasants of Bankura in West Bengal, for instance, along with their brethren in the erstwhile Jungle Mahals and Singhbhum, fought against the exploiting zamindars of the region during 1921-23. Santal women led by Sailajananda Sen blocked roads to prevent export of paddy which was a scarce commodity in the region.⁸ They boycotted foreign clothes and liquor and thus became a part of the non-cooperation movement sweeping the country at that time. The Tana Bhagats of Bihar also fought the British in their own way. They adopted the path of non-violent satyagraha in the face of ruthless repression by the British.⁹ They distinguished themselves by their endurance, heroism and sacrifice while fighting an unequal battle against the mighty imperial power.

The Adivasi Mahasabha (1938) on the other hand, which was not initially a political party, preferred more or less to stay outside the mainstream of nationalist politics and the freedom movement.¹⁰ Jaipal Singh, the charismatic leader of the Mahasabha even went to the extent of supporting the British government and helping them to recruit tribals for their army during the second world war.¹¹ But during the Quit India Movement of 1942 the Tana Bhagats of Ranchi and the Kherwars of Palamau did not stay away from the movement.¹² A large number of tribals from Bihar courted arrest along with the Congress leaders. The success of the movement and the prospect of freedom of the nation in the near future kept the morale of the tribals high during this period.

Indian independence ushered in an era of hope and enthusiasm among the tribals. Guarantees and protections under the new constitution gave rise to fresh hopes and aspirations among the deprived sections of the people. Formation of the Jharkhand Party (1949) immediately after independence and its participation in the general elections since 1952 marked the beginning of a new phase of constitutional participation in the movement. However, one could hardly spell out any 'articulate, coherent systematic pattern' of ideas in the functioning of the new political party worth the name of ideology. The goal (of a separate state) was set, electoral success (winning 34 and three seats

from the Bihar assembly and parliamentary constituencies respectively in 1952) enthused the followers, but the lack of a clear-cut policy regarding the future course of action caused a gradual erosion of support for the party in the subsequent elections.

The idea of serving the tribal interest better from within the ruling party led the Jharkhand Party to merge with the Congress in 1963. The merger led to an era of confusion in the politics of tribal Bihar. Jaipal Singh who was instrumental in the disappearance of the Jharkhand Party and became a minister in the Bihar cabinet for a couple of months, too became frustrated soon. Increasing factionalism and mutual bickerings among the leaders followed the merger. The resultant confusion as well as the difference between pro- and anti-merger factions gave rise to a number of splinter groups in the region none of which could however fill the vacuum created by the merger. Among the newly emerging groups Birsa Seva Dal (1968) declared socialism as its basic economic goal,¹⁴ organised violent attacks on exploiting zamindars and led mass demonstrations in the streets of Ranchi for the creation of a tribal state. They even boycotted the elections. Moses Guria, the general secretary of the Dal described himself as a socialist and advocated socialism to solve the problems faced by the tribals.¹⁵ He favoured public sector enterprises and dreamt of a society free from cheating and black marketing. Thus Birsa Seva Dal introduced a new trend in the politics of Jharkhand through its anti-feudal postures and socialist pronouncements.

In the early 70s the tribal belt in Bihar came under the influence of Naxalbari movement. Some of the naxalite factions operating in the Dhanbad region came close to the fighting Jharkhandis. The struggle against the oppressive economic system got a boost when A K Roy and Binod Behari Mahabo, two hardcore Marxist leaders joined the movement. Quite a number of cases of forcible harvesting as well as drives against the exploiting Jikus were reported from the Dhanbad belt during this period.

In the memorandum submitted to Indira Gandhi in 1973, the Jharkhand Party (Horo faction) also stressed its objective of furthering 'socialism and secularism' in the region.¹⁶ It must be admitted to the credit of the movement leaders that the initial ethnic bias of the movement was gradually removed. By the mid-70s the movement could project quite a number of non-tribal leaders. Even the definition of the term 'Jharkhandi' was widened to include all those residing in the region who observed local festivals, worshipped tribal deities, shared tribal culture and took pride in the martyrdom of local heroes.¹⁷

The ground was thus ready for the emergence of a radical Marxist party called the Jharkhand Mukti Morcha (1973) under the leadership of Shibu Soren. JMM embraced Marxism as its basic ideology and pledged

not only to form a separate state of Jharkhand but also to free that state from class exploitation.¹⁸ The morcha was successful in attracting a large number of workers to the movement and developed a close relationship between the workers and the peasants of the region in their fight against 'internal colonial exploitation'. Agrarian radicalism found expression through the 'Dhan Kati Andolan' (forcible harvesting) in Dhanbad and Santal Parganas¹⁹ as well as through the efforts of the JMM the recovering of alienated tribal lands from the mahajans and zamindars. It was hoped that Jharkhand would become the first 'Jharkhand' in India.

The opening of the department of tribal and regional languages in the Ranchi University (1980) brought some sobriety to the movement by bringing in some ideologues and ensuring intellectual participation hitherto lacking in the movement. Ranchi University soon became the nerve centre of the Jharkhand movement. It gave birth to organisations like the Chotanagpur Intellectual Forum, Chotanagpur Teachers' Association, etc. Formation of such organisations as well as the leadership provided by the department, however, could not solve the problem of lack of an ideological bond—a well-chalked out plan for the future which could hold the activists and leaders together.

The formation of the All Jharkhand Students' Union (1986) in line with the All Assam Students' Union, led to a conflict between politicians and students resulting in the further fragmentation of the movement. The militant students gave a call for the boycott of elections during the Lok Sabha elections in 1989 and thus put the efforts of the Jharkhand Co-ordination Committee (1987) to bring different factions together under severe strain (*The Statesman*, August 26, 1989). The militancy of the AJSU was, however, short-lived as during the assembly elections of Bihar in 1990, AJSU reversed its earlier stand to contest elections under the IMM banner.

The efforts of the Jharkhand Co-ordination Committee to bring a semblance of unity to the faction ridden movement did not meet with success as internal squabbles mostly arising out of personal ambitions of the tribal elites persisted. Moreover, this was an effort to bring divergent elements from some 50 organisations, ranging from extreme right to ultra-left, under one umbrella. The inevitable happened in no time. JCU became a paper co-ordinator with no ideological bond for holding different factions together.

In spite of the claims by the Birsa Seva Dal, JMM or the Jharkhand Kranti Dal to be Marxists and declaring socialism as their goal, the pro-Congress bias of the Jharkhandi communities has been quite evident ever since the early years of our independence. To quote K S Singh, "the Hindivised Bhagats, Sapla Hons among Santals, thread-wearing Santals in Hazaribagh and Tama Bhagats among Oraons have always been pro-Con-

gress."²⁰ Besides, some of the minor tribes like the Paharias, the Asurs of Ranchi and the Kherwars of Palamau "have generally voted for the Congress" in the elections. Even the Catholic Christians normally supported Congress candidates in the electoral fray as part of their global strategy against communism.²¹

Moreover, a good number of landlords and moneylenders were not only allowed to become members of the Jharkhand party but also to hold important executive positions.²² Proofs of infiltration of landed interest in the Jharkhand party were found when its leaders in West Bengal opposed land ceiling on the ground that no such restriction was imposed on urban property.²³

The merger with the Congress in 1963 and the subsequent alliances with the party during elections also prove beyond doubt the closeness between the Jharkhandis and the Congress. In West Bengal, ruled by the Marxists for the last 15 years, Jharkhandis find the Congress their natural ally and with the help of the latter could send its sole representative to the state assembly in 1991, after a gap of some 20 years.

All these point the extreme ideological confusion within the movement even today. Those among the leaders who profess to believe in socialism are not very clear about what they really mean by that. Their ideas about communism also varies.²⁴ Frequent shifting of stands by the leaders confuse the followers further. Policy changes are mostly opportunistic in nature hardly reflecting any principled position taken by the leadership. This inevitably leads to fragmentation, weakening the movement in the process.

WEAKNESSES

The movement has overcome quite a number of its initial weaknesses. It has broadened its base to become more regional in character than ethnic. Tribal-non tribal rift, Christian non-Christian schism or urban-rural divide among the followers have been reduced considerably over the years. But factionalism and personality clashes among the leaders are some of the perennial problems of the Jharkhand movement. Most of the time one comes across more than one 'Jharkhandi' candidates contesting from a single constituency. Disagreements among the leaders regarding major issues like participation in the elections, attitude towards the Congress, choice of candidates or acceptance of the Jharkhand Development Council Bill often come out in the open to weaken the movement further. Perhaps the lack of a genuine ideological bond, in spite of leftist inclinations expressed here and there, allows petty personal matters to take precedence over collective interest. The result has been the emergence of new groups like the Jharkhand Liberation Front (1986) or the Jharkhand People's Party (1991) to complicate matters further. Even the more established groups like the Jharkhand Party, Jharkhand Mukti Morcha or the All

Jharkhand Student's Union—all have two or more factions. While the Jharkhand Party is divided between N E Horo faction and Bagun Sumbrai faction, the JMM stalwarts Shibu Soren and Sailendra Mahato are at loggerheads. Even the AJSU, still in its infancy, is divided between Prabhakar Tirkey group and Deo Sharan Bhagat group (*Aajkal*, February 25, 1992). Interestingly, JMM in order to counter the popularity of AJSU among the youth gave birth to Jharkhand Chhatra Yuva Morcha in October 1991. However, the balance was restored when in December 1991, the Jharkhand People's Party emerged to remove the obstacle in the way of AJSU, mainly a students organisation, to take part in active politics.²⁴

Though commonly categorised as tribals, people falling under this broad category are hardly homogeneous in terms of both spatial distribution and cultural attainments. Difference in language, religious rites and background history of different communities weaken the case for a separate Jharkhand state. Taken together as tribals these communities, however, do not constitute a majority even in the Chotanagpur and Santal Pargana regions. They account for around 25.7 per cent of the population in the 16 districts of south Bihar.²⁵ Population statistics of the districts claimed to be part of the proposed state show that only Ranchi (54.1 per cent) in Bihar, Sundargarh (51.26 per cent) and Mayurbhanj (57.67 per cent) in Orissa and Surguja (54.81 per cent) in Madhya Pradesh have a tribal majority.²⁷ Naturally, the leaders of the movement have had to broaden their definition of 'Jharkhandi' for strategic reasons.

'Lack of viability of the area as a linguistic unit' was the reason sighted by the States' Reorganisation Commission for rejecting the demand for a separate state of Jharkhand. In fact, different tribal communities speak in different languages like Santali, Mundari, Kurukh, etc. Thus the biggest difficulty in spreading education among the tribals is that they have to learn everything in a language which is alien to them. This is because none of the tribal languages has a script of its own. The Santals, for instance, learn Santali through the Bengali script in West Bengal; in Bihar they learn it in Devnagri scripts, while in Orissa they use the Oriya script. Since the Roman script is found to be phonetically inadequate, efforts are on to develop the 'Ol-Chiki' script, invented by Pandit Raghunath Murmu, as a common script for all the Santals in different districts.

CONCLUSION

About a year ago the union home minister S B Chavan in a statement in the Lok Sabha said that the centre was prepared to grant statehood to the tribal-dominated region, provided the four state governments concerned recommended it (*The Statesman*, December 19, 1991). One just cannot overlook the politics behind such statements and

the lack of a genuine interest on the part of the central government to find a solution to the problem. It seems the centre is rather keen to put the ball in the courts of the four state governments led by opposition parties to shake off its responsibility.

Now if some kind of an unity is brought about among the different factions of the Jharkhand movement (keeping in mind the latest efforts to form an 'All-Party Jharkhand State Struggle Committee' as a common platform for all the groups) and even if some degree of autonomy is granted (be it a state, union territory or an autonomous council) over a particular area (covering 25 or 16 districts) the question still remains whether such a move will really improve the conditions of the people at large. There is every possibility that a new set of tribal elites will take over from the present set of 'diku' exploiters. In other words, the creation of a state or a union territory is not an end in itself. What is needed actually is to effect all round development of the region which offers so much to the rest of the country in terms of its mineral resources. In order to improve the conditions of the masses it is absolutely necessary to end all sorts of exploitation in the region let loose by the landed aristocracy and other sections of the people with vested interests. Merely taking decisions from government head quarters and spending crores of rupees in tribal welfare is not enough. Care should be taken to implement government decisions in their true spirits. It has to be seen whether the benefits are accruing to the lowest stratum of the society. However, it is not always the exploitation itself but the feeling of being exploited—ruled from above, that gives rise to protest and results subsequently into movements. Keeping that in mind it is worth trying to minimise the sufferings of the local people by granting some degree of autonomy to the region. Placing a Soren, a Munda or a Besra at the top of the administration is not going to solve the problem of exploitation or underdevelopment automatically but may go a long way in removing the psychological barrier, the feeling of being deprived by the diku exploiters of what is rightfully due to them.

The movement in the central tribal belt does not pose any threat to India's integrity like many other secessionist movements in the border areas. It must be admitted that barring the case of sending a Jharkhandi delegation to the UN Working Group on Indigenous Populations at Geneva in August 1987, the movement leaders have more or less confined their demands to the formation of a separate state within Indian union. But before conceding any such demand one has to make sure that it is backed by the majority in the region. But the fact remains that the tribals are not in a majority in most of the districts claimed by them and the electoral results further show that not all the tribals vote for the Jharkhandi candidates.

Notes

- 1 Sachchidananda, *The Changing Munda*, Concept, New Delhi, 1979, p 242 as quoted by Sharma A P in 'The Jharkhand Movement: A Critique' in *Social Change*, June, 1988.
- 2 Section 92 of the Government of India Act, 1935.
- 3 Sharma A P, op cit.
- 4 Jharkhand Party memorandum submitted to the States' Re-organisation Commission on April 22, 1954.
- 5 Singh K S, 'Tribal Autonomy Movements in Chotanagpur' in Singh K S (ed), *Tribal Movements in India*, Vol 2, Manohar, New Delhi, 1982, p 13.
- 6 AJSU memorandum submitted to Rajiv Gandhi on February 4, 1987.
- 7 JMM memorandum submitted to the president of India on August 11, 1989.
- 8 The rise in number of districts (21 to 25) is owing to steps taken by the government of Bihar to create new districts by bifurcating larger districts over the last decade or so.
- 9 Dasgupta Swapan, 'Adivasi Politics in Midnapur' in Guha, Ranajit (ed), *Subaltern Studies*, Vol IV, OUP, Delhi, 1985, p 127.
- 10 Dhebar Commission Report, as quoted by Bardhan A B, *The Tribal Problem in India*, Communist Party Publication, New Delhi, 1976, p 11.
- 11 Singh K S, op cit, p 5.
- 12 Weiner Myron, *Sons of the Soil*, OUP, Delhi, 1978, p 189.
- 13 Sharma A P, op cit, p 62.
- 14 Roy A K, *Jharkhand aur Lalkhand* (in Hindi), Marxwadi Co-ordination, Dhanbad, 1981, p 52.
- 15 Weiner Myron, op cit, p 181.
- 16 Jharkhand Party memorandum submitted to Indira Gandhi on March 12, 1973.
- 17 Mahato P P, 'Social Movement—Sanskritisation to Secularisation: A Case Study of the Mahato of Jharkhand' in Siddique (ed), *Acculturation and Social Change in India: An Interdisciplinary Appraisal*, ASI, Calcutta, 1989.
- 18 Roy A K, op cit, p 54.
- 19 Ghosh and Sengupta, 'Nationality Question in Jharkhand' in Nirmal Sengupta (ed), *Fourth World Dynamics: Jharkhand*, Authors Guild Publications, Delhi, 1982, p 246.
- 20 Singh K S, op cit, p 24.
- 21 Ibid, p 22.
- 22 Devalle Susana B C, *Discourses of Ethnicity: Culture and Protest in Jharkhand*, Sage Publications, New Delhi, 1992, p 140.
- 23 Chakraborty Sabyabrata, 'Jharkhand Movement in West Bengal—A Case Study of Sub-National Politics' in Rakhahari Chatterji (ed), *Politics in West Bengal*, World Press, Calcutta, 1985, p 180.
- 24 Ibid, p 187.
- 25 Ibid, January 8, 1992.
- 26 Census figures of 1981 as quoted by Sharma A P, op cit.
- 27 De R K, 'Tribal Revolts in Central India: A New Phase' in Ghosh and Chakrabarti (eds), *Ethnonationalism: Indian Experience*, Chatterjee Publishers, Calcutta, 1991, p 123.

Dunkel Draft: Critique of Government's Interpretation

C Niranjan Rao

The government's interpretation of the Dunkel draft goes completely against what it has been arguing in the negotiating group for five years. What happened to its arguments that trade and intellectual property are not related, that a higher level of patent protection distorts rather than promotes trade, that it will hinder technology transfer, and so on?

FINALLY the cat is out of the bag. The government has come out clearly in favour of accepting the Dunkel draft as it stands, except asking for some footnotes (see *Economic Times*, June 8 and *The Times of India*, June 10 and June 13). This is the outcome experts have been expecting at least since April 1989. This note attempts to evaluate the government's interpretation of the Dunkel draft.

It is not clear even now why India and other developing countries accepted the strong Punta del Este declaration. In retrospect, the developing countries', including India's, earlier position, that the setting of norms and standards of IPRs was beyond the mandate, was very effective. Once the developing countries agreed to negotiate norms and standards of IPRs under GATT, the GATT-based approach was a reality and Dunkel draft was a logical culmination. As it is a take-it-or-leave-it text, no major re-negotiations are possible. The quality of India's contributions to the negotiations was pathetic, to say the least. India did not give any credible reasons to justify its arguments that trade and IPRs are not related or why developing countries should have a lesser level of patent protection. India was not well prepared to take part in these complex negotiations. There were no serious and concerted attempts by the developing countries to come to a common understanding and negotiating strategy.

What did the government do to inform the public and generate a debate about the implications of the GATT-based approach to TRIPs? Nothing. The public posture of the government has always been that it will oppose the inclusion of TRIPs under GATT. The decisive break came in April 1989, which was described as a change in 'negotiating stance' and not in 'negotiating position'.

Due to efforts of activist groups like the National Working Group on Patent Laws, this became a public and political issue. In a democratic polity any group has a right to express its opinion. Given the nature of the Dunkel draft, differing interpretations are possible. Saying that some activists

are deliberately propagating falsehoods is to take the debate to low levels.

NORMS AND STANDARDS

One of the earliest objections to the inclusions of TRIPs under GATT was the difference in the concept of national treatment in the Paris convention and the GATT. In the Paris convention it refers to treatment of persons, while in the GATT it refers to goods. The provision that patent rights shall be available without discrimination between locally produced products and imported ones conforms to the GATT national treatment principle. Once you accept this principle it is impossible to use compulsory licensing provisions to ensure local working. Because the use of compulsory licensing amounts to discriminating in favour of locally produced products at the expense of imported products.

The Dunkel draft defines patentability (for the first time in international treaties) in such a way that all the technological fields are covered. There are two options as far as process patents are concerned. One is to have process patents with reversal of burden of proof, in which case the transition period is five years. The other is to switch to product patents in which case the transition period is 10 years. The pipeline protection clause, along with exclusive marketing rights for a part of this period, makes a complete mockery of this transition period, reducing it to nothing.

The Dunkel draft stipulates what the duration of a patent should be—a uniform period of 20 years from the date of application. This will mean a substantial increase in patent life in the Indian case, where the duration for product patents is 14 years from the date of grant and in the case of process patents, five years from the date of grant and seven years from the date of application, whichever is shorter. The question which is neglected is why the duration of patents should be increased when the monopoly power of the patentee is enhanced by other provisions of the Dunkel draft.

There are several interpretations of the Dunkel draft's provisions regarding compulsory licensing. The question is whether the vagueness of the Dunkel draft allows devel-

oping countries to continue using this provision. For argument's sake, if one accepts that trade and intellectual property rights are related, compulsory licensing is a trade-distorting practice. The government's version of the Dunkel draft seems to say that the present provisions of the Indian Patents Act will continue even after India signs the Dunkel draft. This is an extreme interpretation. In fact, the Dunkel draft prescribes very narrow limits to the issue of compulsory licensing. Hence compulsory licensing cannot be used as a panacea for all ills resulting from abuse of enhanced patent monopoly. As the initiative for taking out a compulsory licence comes from the private sector, we cannot be sure of this sector making use of these provisions to the detriment of the interest of a foreign patentee.

A GATT-based approach *per se* means that imports should be regarded as working [Rao 1989]. The principle of GATT national treatment ensures this. If imports are not regarded as working then the strongest link between trade and IPRs is removed. Developed countries vehemently opposed the inclusion of a provision specifically saying that imports cannot be regarded as working at the revision conference of the Paris convention. Hence it will be very surprising if the developed countries give any other interpretation to the Dunkel draft.

PATENTING LIFE

The steps in the direction of patenting life have taken the following route in developed countries. First, plant breeders were given plant breeders' rights, subsequently patentability was extended to micro-organisms. Later, patent protection was given to genetically engineered plants. Finally, animal varieties were made patentable.

The Dunkel draft forces the developing countries to take the first steps in this direction. It is not voluntary because the developing countries chose not to do so till now. The Dunkel draft says that plant breeders should be given *sui generis* protection and micro-organisms should be patented.

The exclusion of biotechnology patents to plant and animal varieties is to be reviewed four years after the coming into force of this agreement. This was not done in deference to the wishes of developing countries, but because the EC has not yet decided to give patents to biotechnology inventions. After four years when the developed countries decide to include biotechnology patents the developing countries will have no ground to argue against it, no matter

what strong stand the government takes on seed patenting.

One way of providing *sui generis* protection to plant breeders is to give them plant breeders' rights (PBRs). Even if India decides to adhere to UPOV 78, it has to switch to UPOV 91 by 1995, exactly two and a half years from now. According to van Wijk and Junne (1992: 24): "in the UPOV 91 the position of the plant breeder vis-a-vis other breeders and farmers has been strengthened. The remaining difference in protection conferred by UPOV 91 and a patent is small. The breeders' exemption is now in fact similar to the research exemption under patent laws, while the farmers' privilege internationally has ceased to exist." Indeed there is a choice between UPOV 91 and Dunkel draft, but it is only that between the devil and the deep sea.

The support of the Indian Council for Agricultural Research (ICAR) for granting of PBRs raises some interesting questions. Government research generally is supposed to go to those areas which have the largest social benefit. Here the emphasis is not on appropriability of the invention but its large-scale diffusion. The point is whether public R and D is driven by the protection granted or not. If it is so, what is the difference between public and private sector research? Public research is generally prescribed when there is a problem with the appropriability of inventions.

The developed countries never asked for patenting of naturally occurring genes and micro-organisms. The question related to whether genetically engineered genes and micro-organisms are patentable or not. Genetic manipulation may be more of an invention than a discovery.

IMPACT ON DEVELOPING COUNTRIES

India and other developing countries gave up their fight over non-inclusion of TRIPs under GATT. It is quite understandable because pressures from developed countries did not leave much choice. Given the present international political reality, the developing countries do not have the capacity to resist and make their voice heard. Here one has to keep in view what will happen if the Dunkel draft is accepted. South Commission (1988: 9-10) observed that "the contemplated use of the GATT with its provisions for dispute settlement, compensation and retaliation is designed to further strengthen the very considerable element of coercion already built into the conduct of bilateral economic relations".

It is an altogether different thing to say that it is in India's long-term interest to strengthen its patent system. What is the evidence for this? Studies of the experi-

ence of developing countries in Latin America and Africa [Grundmann 1970; Vaitos 1972; Katz 1973; Sercovich 1973; O'Brien and Faruqi 1976; Chudnovsky 1983; Adikibi 1988; and Wangwe 1991] have conclusively shown that developing countries never benefited from the patent system. They did not experience any indigenous technological development or technology transfer which can be attributed to the patent system. All these countries have tried to weaken the patent system so that the monopoly interests of the patentee are weakened, because that was the major threat.

Will the nature of technology, its ease of imitation affect the licensing behaviour of a patentee? A patentee will patent a new invention on consideration whether it is easy to imitate or not. If it is very difficult to imitate, then it is in the patentee's interest to keep it a secret. If it is easy to imitate, then it is better to patent it and get a monopoly. Ease of imitation may not be an important consideration in licensing.

The most important question regarding pharmaceutical patents is not whether prices go up, but whether a strengthened patent system will result in technological breakthroughs especially in fields relevant for developing countries and a spurt in technological progress in this sector in developing countries. Unless this question is answered the basis for strengthening patent system for pharmaceuticals is not laid. There have been differing estimates of how many drugs under production in India are under product patents abroad. The estimates range from 5 per cent to 25 per cent. This is an idle question, the underlying assumption being that this will remain the same in future. There is no basis for this assumption. What are the substitutes for new drugs which are patented? These are the drugs which are old and necessarily less effective. The argument seems to be that if product patents result in a rise in prices, people should use old drugs which are outside patents and should not benefit from new drug inventions.

The link between the patent system and foreign direct investment is too tenuous even to guess what will happen.

It will be very surprising if strengthening patent monopoly does not lead to higher prices. A patent monopolist who is looking for monopoly rents as returns for his investment in R and D and does not charge monopoly prices goes against the very idea of a monopolist. That substitutes are always available to check excessive prices is true for almost all inventions. If this ensures competitive prices then patent monopoly does not act as an incentive for investing in R and D because it will not lead to monopoly rents.

The government's interpretation of the Dunkel draft goes completely against what it has been arguing in the negotiating group for five years. What happened to its arguments that trade and intellectual property are not related, that a higher level of patent protection distorts rather than promotes trade, that it will hinder technology transfer, etc? What happened in between? Did any new evidence on patents and their role in technological progress come out? The government's interpretation of the Dunkel draft is as ill-prepared as its submissions at the Uruguay round.

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Decentralised Management of Natural Resources in the UP Hills

Sri Madhava Ashish

Over-population in relation to poor land productivity has resulted in land degradation and deforestation in the UP hills. If any new management system for revival of the common property resources is to succeed, the locals should be actively involved in every phase of the programme.

WITH all the government's development efforts in the UP hills, and with all the money coming in from migrants, degradation of the hill environment still continues under the pressure of the people's needs for fuel, fodder, and all that derives from fodder. All classes of land, including the reserved forests, fully contribute to the people's subsistence, but their sustainable yields are less than the human demands; hence the continuing degradation.

Provided that population numbers stabilise, improved management of land and livestock raises sustainable yields of fodder and forest produce above present needs. The linked problems of resource poverty and environmental degradation are therefore a problem in land management. But the people lack legal powers of management over any of the land except the relatively small areas under cultivation and panchayat forest. Lack of power and lack of relevant education accounts for the people's failure to handle the problem themselves.

In the context of some 13,000 small hill villages, general schemes for improved land management have to be adapted to each village's specific conditions. This cannot be done by a centralised administration, it has to be done by the villagers themselves. For this purpose, legal obstructions must be removed and the village communities appropriately empowered to manage all the lands on whose products they subsist. Forest panchayats provide an example of decentralised power, and they could perhaps be expanded to cover the requirements of many villages, but they are not given the necessary administrative support, nor are they suited to all villages. Some alternatives are discussed.

Sufficient studies have been made in the UP hills to show that unless the fragmented ownership pattern of cultivated land is changed; livestock numbers, their quality and their management are rationalised; the legal status of uncultivated land, including forests, together with user rights and management systems are changed; and the population growth rate is checked, then land degradation and soil erosion will accelerate, with the predictable consequences of in-

creased flooding in the Gangetic plains, increased silting of reservoirs and riverbeds, and permanent migration of more and more hill people into the already crowded plains. One can only guess what might happen to the people who remained in the hills.

In short, the UP hills are over-populated in relation to land productivity under existing management. Migrant earnings permit resident families to purchase their shortfall in foodgrains, together with clothing, etc, plus an increasing amount of kerosene, bottled gas and electricity as substitutes for fuelwood, all of these items being imported from outside the hills and paid for with money from outside the hills. Even fodder is being trucked in from the Terai.

If there were total dependence on imported food, fuel and other necessities, all paid for by migrant earnings and the salaries of government employees, the hills would be a dormitory area with minimal demands on the products of the local land, so there need be no cultivation, no bullocks and other grazing livestock, and the land would quickly revert to forest. But that is not the case, nor is it ever likely to be the case.

We are dealing with a population of five millions (perhaps one million families) in 13,000 villages, all of whom are trying both to get as much out of their land as they can for direct consumption, and to obtain as much money as they can, either by growing cash crops or by taking employment away from home, plus earnings on transport and tourism. The contribution from the land is vital to the people's subsistence, yet it is now a fact that the poverty of the hills is predominantly a poverty of the materials of direct consumption produced by the land, and no longer a poverty of money.

The substitution of high value cash crops for foodgrains may allow people to buy relatively low priced grain, and so to subsist on and even to make a profit out of a plot of land that is too small to yield sufficient grain for subsistence. But this hardly touches the problem of the shortage of other materials for which substitutes cannot be purchased. The most important of these other materials are fodder, milk, meat, wool, organic manure and bullock energy that derive from

fodder, and water. Fuelwood is an irreplaceable essential for the majority, but substitutes are used by those who can afford only because wood is obtained with difficulty. Cowdung is not burned in the hills because hill agriculture needs large inputs of organic manure for which chemical fertiliser is not a substitute.

As numbers increase and per capita crop yields decrease, there is constant pressure to extend the cultivated area for grain crops (even though such extension has been officially forbidden). Any such extension correspondingly decreases the area of pasture and forest which supplies the fodder, fuelwood and water, plus the essential organic manure. For every hectare of cultivated land about five hectares of uncultivated land is needed to maintain supplies of organic inputs which maintain crop yields. In many villages this proportion has been lost, and to restore it some land may need to be taken out of cultivation.

This rather dismal picture of shortages and land degradation can be transformed by improved land and livestock management. Freed from grazing, grassland recovers in from one to three years to yield four to six times the weight of grass by hand cutting over its yield under grazing. If fodder trees are planted, the long-term yield increases by a factor of eight over grazed grass, and the trees give green fodder in the cold winters and dry summers. Provided the human population growth rate is checked, such increases in yields of fodder, etc, raise the real income of the villages and improve the standard of living.

There is no easy answer as to how such improvements can be brought about. Any one can propose enclosures, plantations, stall-feeding of cattle, the rationalisation of bullock numbers by introducing service ploughing, and other such seemingly straightforward and practical changes, but very few people, other than the villagers themselves, are aware of the intricate relationships between every activity on the land, such that any change in one is likely to have repercussions on all the others. For example, for the women to have the time and energy for cutting and carrying all the fodder required for stall-feeding, they would need fuelwood supplies close at hand, water for the households and livestock piped to their houses, and, if possible, a power-driven flour mill in the village, and a 'balwari' to care for their children while they are at work.

Furthermore, the enormous variations in topography, soil types, altitude belts, and human communities which characterise the UP hills, make it impractical to think in terms of uniform programmes and administrative processes. Village communities must be free to discover what particular approach to new land management will suit their specific conditions.

We have also to contend with the mind of the villager who lives so close to the survival line, that he seldom dares to experiment with changes because he cannot afford a failure. So he is distrustful of change, and he prefers the methods of his forefathers, even when they are proving themselves destructive under the new conditions of increased population density. His instinctive distrust of others' motives has also grown along with the competitive struggle for ever more scarce resources. Even the younger men who have been out into the world and have adopted modern life styles, when they return to their villages tend to slip back into the village way of thinking.

Perhaps the biggest obstacle to development in the villages is the ruthless power-grabbing by the 'big' village men. Such men typically hold the crude view that holding power is not enough; it must be displayed and used for personal advantage. They will grab land, and bully and bribe their way into becoming 'sarpanch' or 'sabhapati' where they can lay their hands on village funds. Often, such a man is so jealous of his power that he will try to prevent anyone else from doing anything to improve village conditions, and nothing is done that does not put money into his pocket. He commonly acts as a political party agent, exchanging vote banks for programme funds channelled to his area. In consequence, the villages of his area are often the poorest in terms of fodder, fuelwood and water, even though they may get handouts of money, a road, electric power lines that sometimes carry electricity, pipe lines that may or may not carry water, and an irrigation channel which, if it works at all, may serve only the big man's land. In this area, therefore, the work of NGOs may be restricted to those villages where the influential people are not so jealous of their power. However, there are some village leaders, trusted by everyone because they are free of self-interest. Where they lead, the village will follow. But they lead slowly and never drive.

These, very roughly, are the circumstances within which we must operate, circumstances which forbid us from imposing our own ideas on people who do not fully understand the reasons why a change is necessary. We therefore have to begin by presenting the logic of their situation, which is that the limited area of the village is capable of producing a limited amount of material, sufficient to sustain the needs of a finite number of people. Within limits, the better the land is managed, the more materials there will be, either to support more people, or to raise the living standard. Simple though this may sound, it is a fact that it is not understood—and not only by village people. An educational input is required.

As presently managed, the land's total yields are dropping, even as the number of

migrants is increasing because their land is not supporting them. Better land management will first stabilise yields and then increase them so that the people who stay in the villages will have a better life, while the same steps required to raise yields will simultaneously restore the environment.

We can discuss how these improvements might be achieved, and we can take some of the villagers to see examples of such improvements, but the actual decision of what each particular village will do must be taken by the people themselves. Only then will they believe that the necessary changes are truly in their own interests, and that they are not being tricked into subserving someone else's interests. Only under these conditions can we be assured that any funds required for their programmes will be honestly utilised.

As things stand, we cannot expect the average administrator to adopt such an approach to rural development; it is contrary to his training and his career-oriented motivation. But after more than 40 years in which the government has succeeded in building up an infrastructure of roads, schools, hospitals, telephones and electric power lines, all of which can be done without involving the local people, but has failed to check either the population growth rate or the degradation of the land, which intimately affect the local people, we might expect the government to accept that its methods are unsuited to the sort of development whose success depends on the autonomous decisions of rural communities by which they plan and execute the programmes of their choice. We have ample evidence of the success of this approach from the programmes of many local NGOs and other village bodies.

Here it may be necessary to remind the government that, since the time officials stopped touring the villages, camping there and holding their courts there, they have largely stopped meeting the typical village resident. The people they mostly meet are the politically motivated 'netas', Sabhapatis or Pradhans who regularly visit district and block headquarters with a view to getting programme funds allocated to their areas of influence. What then happens to those funds is part of the story of political corruption which thrives on the failure of programmes and the diversion of their funds. It is to these people's advantage to present failure as success and so attract more funds.

We are therefore not concerned with the decentralisation of power within the existing politico-administrative system, for that would merely transfer power into the hands of the lower and most corrupt echelons of a thoroughly corrupt hierarchy. There is not the slightest reason to suppose that any of these people would be interested in using their power to raise the economic status of the villagers to the point where they might

become independent of politicians' patronage.

We suggest that when a village community is encouraged to make its own decisions about the management of the land on whose yields the people subsist, then the typically small hill village community has the capacity to manage its land as efficiently as the owner of a private estate will manage his land when it constitutes the main source of his livelihood.

The government certainly has a role to play. Firstly, villages should be given legal ownership of the common lands, namely, the civil and soyam 'forest' (often without trees), which is now legally government property, mal-administered by the land revenue department. One of the government's main reasons for not doing this is that, as it stands, village agreement is not required for road construction, power lines, and mineral exploitation, even though natural justice would require that people whose basic subsistence derives from the land should have legal rights to its management and to compensation for its alienation.

Secondly, private management of cultivated land, which is the most important land in village life, would be immensely improved by an appropriate form of consolidation of landholdings, which would remove the obstruction to individual initiative caused by the extreme fragmentation characteristic of hill landholdings in the present day. Indian inheritance laws lie at the root of this problem, but it is too much to expect of populist governments that they would touch these roots of social stability.

It is doubtful whether an unimaginative imposition of the Land Consolidation Act would be either acceptable or workable in the hills. But if intelligent and well-motivated officials were given the freedom to adapt the Act to local conditions, perhaps in co-operation with a local NGO, so that, for instance, irrigated areas were consolidated separately from unirrigated land, and distinct village areas with distinct soil types and aspects were consolidated separately, then a system might be evolved which would be generally acceptable throughout the hills.

Thirdly, the government must give serious thought to the problem of the hill people's rights in the reserved forests. Violent demonstrations against British government expropriations of forests around 1920, and against rules that forbade grazing and lopping in those forests, led to rights of grazing and lopping being given to all residents in the Kumaon and Garhwal in all reserved forests. The importance of these rights has grown with the increase in human and cattle populations. Indeed, stabilisation of the cattle population over the last two censuses indicates that the total land area open to grazing under present management can carry no more. But this is stabilisation at the lowest level of livestock maintenance.

Yet these rights of user carry absolutely no rights of management, nor can any one village exclude others from the area of reserved forest it habitually uses. In addition to this, there is a law which prevents the forest department from enclosing more than a predetermined total area at any one time. Taken together, these two laws stop the forest department from allotting specific, walled off areas of reserved forest to specific villages, even if it wanted to.

Only if the general right of grazing and lopping in all reserved forests could be exchanged for rights in demarcated and walled areas, with rights of management added, would the village people find it in their interests to manage these areas along with the civil and soyam and panchayat forests so that total fodder yields could be increased. However, it must be noted that those villages with smaller per capita fodder availability tend to rely more on reserved forest rights, if they are within reach. Such villages might need larger allocations.

Another advantage gained by the villagers from their agitations was the decentralisation of power by which forest panchayats were established with legal powers of management over considerable areas of forest released from the 'new reserves'. Some areas were also released for addition to the civil and soyam of one or more villages where representations were made that villages lacked sufficient pasture. Village administration of these early forest panchayats appears to have been generally good, and it received the statutory support of the land revenue department which guaranteed the enforcement of fines and so upheld the prestige of the panchayats.

Later panchayat forests were formed out of civil and soyam forest, where there was enough of it. However, after independence, although more forest panchayats were established, the administrative back-up became weaker and weaker. The result has been that well run panchayats which required minimal support survived, while others went moribund.

Forest panchayats are a particularly interesting phenomenon because they represent the delegation of legal powers for the management of common resources to peasant communities with the provision of administrative support. They merit particular attention because they exemplify the decentralisation of power we now need for the management of all village lands.

For as long as the community's major interest lay in supplies of fodder, fuelwood and timber for home use, the panchayats generally worked well. But with the coming of motorable roads and trucks, which roughly coincided with the time when population pressure led to massive male migration for employment, the interests of the male community turned to money-making. But there was no transfer of panchayat power to the

women whose interests still lay in fodder and fuel. The result has been that the women destroyed the now loosely guarded fodder forests, while the men exploited the money-making opportunities of the pine forests. It is still reported that panchayat forests lying distant from motorable roads are better managed than the ones close to roads.

Thus, by virtue of excessive increase in work for the senior district administrators, the abandonment of regular touring, weakening of the administrative back-up, the nexus of local politician, minor official, office staff and corrupt sarpanch, and the insupportable pressure of fodder demands on scarce resources, an institution that had all the basic qualities for expansion into the sort of village land management organisation we now require to meet present circumstances has so deteriorated that it cannot be trusted to perform even its limited duties in panchayat forests, let alone manage the whole civil and soyam with all its ramifications into livestock management and such vital changes as the ploughing pattern. However, the forest panchayat remains an institution that could continue to manage its forests wherever it is working well.

It is for reasons of this sort that the problem of the hill environment cannot be solved by such obvious steps as massive, government-run, reforestation programmes. Nor can the imposition of forest panchayats on all villages (as proposed by a recent new draft of forest panchayat rules) persuade the villagers to make them work. The official attitude towards the sustainable management of natural resources is not very different from that of the village neta. Power is jealously guarded, preventing decentralisation in terms of village autonomy which is required if the hill village economy is to be revitalised by restoring the productivity of the uncultivated lands. Short-sighted, selfish political interests prefer the existing centralised system through which the politician, bureaucrat, block pramukh and sabhapati can exploit the official funding line of state, district and block. In many instances, villagers do not even get to know that programme funds have been allotted to them. Punitive laws designed to enforce accountability are in general applied only to individuals outside the corrupt nexus.

Direct central government funding of rural NGOs was developed as a means of ensuring that funds actually reached the rural areas, and did not get used to pay departmental staff, as happened when funds were routed through the state government. What started as an excellent system based on trust and accountability has now become so bureaucratised that rural NGO leaders find themselves painfully harassed by the detailed regulations with which officials seek to replace honesty and trust, and to substitute for the cost and effort of physical inspection. The simple fact is that trustwor-

thiness will never be developed unless people are trusted and accountability is enforced.

One of the consequences of the population increase is that more and more people are realising that the social tensions produced by crowded living conditions demand resolution in terms of community agreement to share scarce resources equitably, as against the current selfish competition to grab as much as possible for oneself. Similarly, it is at last being recognised that a person who has many children is not only irresponsible, but also extremely selfish, for he expects and even demands that an already resource short community will provide for all of them. Such changes in outlook, embryonic though they may be, indicate that the people are more ready than before to take part in responsible self-government. Correspondingly, there are an increasing number of government officials who are aware that a centralised government cannot administer the internal affairs of thousands of remote and scattered village communities with the necessary flexibility and attention to detail which can come only from strictly local knowledge of both places and persons. Nor can money- and career-oriented minor officials be expected to motivate the people and obtain the trust and confidence given to non-government workers—a trust that has been the basis of the few truly successful rural development programmes.

We are therefore looking for greater political and administrative maturity to match the growing maturity of the people and their changing expectations of what a government should be and do.

Plainly, a community should have at least as much power to manage its land for its long-term benefits as an individual must have over his. One difference is that a community's decisions must be taken by the community as a whole, or by a majority vote, or by a representative group. There is also a more obvious need for the backing of state power to check individuals from harming the interests of the community. Such powers of management have to be delegated by the state, and the state must provide the support which upholds the authority of a duly established village organisation.

This is precisely the legal position of the forest panchayats. We must therefore ask why so many of them have not worked.

- (1) Due to lack of administrative interest, regular elections were not held. Lacking opportunity to throw out a corrupt or unpopular sarpanch, the communities felt themselves powerless and so lost interest.
- (2) In multi-village panchayats, the sarpanch is inevitably from one village and tends to favour the members of his village. This adds to the social tensions associated with the competition for scarce resources. Single village panchayats

have relatively less trouble.

- (3) With more and more men migrating to the plains for employment (some villages are reported to hold not a single male of working age) and with the male population's attention turning almost exclusively to money-making activities, many forest panchayats ceased to be active.
- (4) Very few panchayat forests were large enough to sustain the growing demands for fodder and fuel, and the panchayats were unable to hold out against them, so the forests deteriorated.
- (5) The district administration did not provide adequate support. Fines were either not collected by patwaris, or they were collected after so much delay that there was no punitive effect. This undermined the panchayat's authority.
- (6) There were not enough inspectors to visit every panchayat even once in three years. It was also alleged that SDMs used the inspectors for their other work.
- (7) At no level of government did there appear to be any awareness of or interest in the deteriorating state of the hill economy. The panchayats appeared to be nobody's concern, and none seemed to appreciate that delegated powers cannot survive without support from the state. Like everyone else, the government had succumbed to the illusion that money could solve all problems, so emphasis fell on employment opportunities and business ventures. The land from which all the materials of direct consumption are obtained was ignored.
- (8) Forest panchayat incomes from resin and timber often amount to quite large sums. Particularly after roads were built, significant amounts of material were siphoned off to local turpentine factories and saw mills, many of them owned by local netas, and the benefits went to the sarpanch and his friends. What was left after deductions by the forest department was lodged with the district magistrate. It was difficult for a panchayat to discover what it had on account. Funds were released from time to time for the construction of schools, 'panchayat ghars' and, more recently, for walling the panchayat forests, all providing profitable contracts for the sarpanch and his family. There were also disturbing reports of forest panchayat funds being used by district officials for programmes in which they were interested.
- (9) On top of all this must be added the continuing degradation of civil and soyam lands under the pressure of livestock numbers and increasing demands for fuelwood. Pressure on the panchayat forests therefore increased, even as the panchayat itself lost interest.

So we return to the point that regeneration

of the panchayat forests alone through re-vivification of the panchayats will not solve the fodder problem; fodder shortages might even be aggravated because degenerated forests would have to be closed for recovery.

The present need is for village organisations empowered to manage all the fodder and fuel producing village lands, including panchayat forests and those sections of the reserves which should be allotted to specific villages. Any such organisation will require administrative support and technical advice. All villages will need funds, but only a few have sufficient panchayat forest income for the purpose. A form of supervision is required to ensure the proper utilisation of funds, without falling into the bureaucratic trap of trying to administer rural affairs by remote control, and of substituting complicated paperwork for honest inspection of work done. In the rural setting, complicated paperwork tends to put power into the hands of the smart people who can handle it, as against the people of better character, particularly women, who find it difficult.

The dead weight of the centralised administration inhibits (and corrupts) the creative abilities in the mass of the non-government public. Since the numerically largest part of that public is in the rural areas, anyone might suppose that this huge human potential would be best employed in managing its affairs to its own and the national advantage. Unfortunately, our politicians seem capable of viewing this human potential only in terms of votes. A mature government would aim to provide the necessary legislation and hold a watching brief over the people's activities, intervening only where the land was being damaged, funds were misused, or panchas were abusing their positions. We must consider what sorts of village organisations could handle the management of village lands for the aims outlined above.

The first point is that we should not think in terms of a uniform type of administrative organ to be imposed on all villages by government order. Empowerment is necessary, but the methods by which the power is to be exercised need not be rigidly confined within a single predetermined system. It would be better to have a number of alternatives from which villages could choose one that suits their particular needs.

There are two main reasons for taking this view. Firstly, no one yet knows what system would work, so we need to experiment. Secondly, village experience of the existing systems has varied greatly. For example, where a forest panchayat has been well run, that village might like to extend the panchayat's power to cover the whole of the civil and soyam land. Where a forest panchayat has been badly run by a group of scoundrels, the village might flatly refuse to allow it to have extended powers, and might prefer to have it abolished in favour of an

alternative. Some suggested alternatives are:

- (1) Panchayat raj sabha: This might be the first official choice, but it would be wrong. It is a highly politicised body and it covers a group of several villages, whereas each village has to be managed by its own residents. In effect, we should be dealing with village welfare and not with party politics, with all that the latter term implies in the diversion of development funds.
 - (2) Forest panchayat: As noted above, in principle this organisation has all that is required for the work. In practice it has largely failed for lack of administrative support and proper inspection. However, it remains as one alternative which many villages might accept, particularly if it were to be reconstituted under a distinct wing of the forest department. Multi-village panchayats would not work.
 - (3) In some instances, an existing forest panchayat might continue to run the panchayat forest, while another organisation handled the civil and soyam.
 - (4) The civil and soyam, in whole or in part, could be divided among all the families of a village on the same terms that the UP government leases it to individuals for tree planting. Factually, the UP government terms favour the wealthy who have funds to fence and plant the area. Where all families in the village are to have plots, funds for development would have to be provided.
 - (5) The civil and soyam can be leased to a village land management committee, either on its own or in association with an NGO.
 - (6) A local NGO could be constituted as a nodal agency for the distribution of government funds in a defined area. It would work through village management committees, funding appropriate projects, educating the people in the principles of sustainable land management, and ensuring accountability.
- Although there are examples of villages where much has been achieved on the basis of unanimous agreement, it is too much to expect that all villages would resolve their internal problems and work in this way. As things stand, any number of village projects for the management of enclosed areas of civil and soyam have failed on account of one cantankerous individual who asserted his individual right to graze his cattle. The law supports such action because the land belongs to the government, the community has no rights, and only individual rights are recognised. This is why village communities must have the power to enforce majority decisions. But this should not mean that in avoiding the obstructive actions of cantankerous right holders we find ourselves burdened with the even worse obstructionism of government officials.

Committing 'Adulteracy' Literacy and Non-Voting Child Public

Peggy Mohan

Change on a mass scale if it involves genetically-guided learning must be spearheaded by young children. Major internal social change has to be generational. Mass illiteracy 'dies' not when the last adult is made literate but when schooling and literacy become accessible to all children.

ONCE again, the insight came from the periphery: in any human population, fully 10 per cent has "a specific difficulty in learning, constitutional in origin, in one or more of reading, spelling and written language" (the British Dyslexia Association's definition of dyslexia). By 'constitutional' we mean here 'inbuilt', emanating from a particular 'hard-wiring' of the brain. To reverse this definition of dyslexia is to reveal an awesome truth: that fully 90 per cent of any given human population is constitutionally 'bioprogrammed' to acquire literacy skills as naturally as it is 'bioprogrammed' to learn to swim, given access to water. Literacy is 'written' into the human genetic code.

The rest is familiar psycholinguistics. Working through analogy we briefly transpose the entire discussion to the allied domain of language acquisition, where the details of the terrain are more known. The fascinating truth about language acquisition is that it is part of a genetic 'knowledge' where the details themselves are missing: we are not born knowing the actual language our community speaks. What we are born 'knowing' is how to discover, or uncover, the surface form of any human language we encounter in our infancy with the guidance of a genetic 'bias'. Children are not painstakingly 'taught' language by their parents and elders: they figure it out themselves in a natural process unlinked to their level of intelligence. Language learning, for children, is not an intellectual exercise, but simple normal growing up.

Of course, the human brain does not remain indefinitely adept at matching up sounds and experiences from the environment with a highly abstract and genetically bestowed bias. Each phase of human life has its own tasks and adapted abilities. We move on. We have to be able to take earlier learning for granted. Consequently the entire essential structure of language must be in place by the time the child is six years old. All that remains is amplification of the established patterns and adding detail—the more intellectual part we humans tend to be inordinately proud of, as this is where we get a chance to discriminate against those intellectually and socially 'weaker' than ourselves. But the simple truth is that it is the

journey from 'no language' to 'full language', the journey from age zero to age six, that is the truly mind-blowing transformation. Any child who is deprived of exposure to language between the ages of zero and six will be unable to ever make up this deficit. 'The real Mowglis never ever learn to speak!'

The point in this argument is that genetic 'knowledge' aimed at guiding discovery is strongly associated with what are called 'critical learning periods'. 'Critical learning period' is a neurological concept. According to neurology, specialised learning periods like the language acquisition phase are matched on the physical front by actual changes in brain physiology, all related to a phased closing off of options. For example, at puberty, the childhood period of 'cerebral plasticity' ends with the 'lateralisation' of brain functions: one hemisphere, typically the left, comes to 'dominate'. This is the hemisphere associated with language skills. And this lateralisation marks the end of the childhood ability to acquire language effortlessly: learning new languages must now be a conscious intellectually-driven effort.

In other words, 'growing up' coincides with a sharp, if not total, decline in an ability to learn a genetically ordained skill. Moreover, any successes in teaching learners who are past that critical phase for learning that skill must now amount to a case of individual achievement—the 'species-specific' character of the learning is forever gone. For anything on a mass scale it is now too late.

There is an interesting model in evolutionary sociolinguistics of how major, 'or quantum', change comes to a community. This model, too, hinges crucially on the notion of critical learning periods. To be specific, this model envisages a major environmental change that acts as the catalyst for learning/change: there has to be a reason why rapid and dramatic change is called for. Migration. Conquest. A new technological environment. Adult adaptation to this new situation is sporadic, incomplete, unsystematic: it has no guidance from genetic logic. Children, however, are fundamentally different in their response: because of their access to the 'bioprogramme' they are tuned to discerning structure, be it of an existing system, or, if that is not available for reference, 'evolving' a new one, 'grown'

in accordance with their shared 'bioprogramme'. It is not migrants, but the children of migrants, who can shift to a new language loyalty. And it is a commonplace in evolutionary sociolinguistics that new languages are 'evolved' not by adults, but by children below the age of six, who have no other language of refuge.

The implications of this model are clear: change on a mass scale, if it involves genetically-guided learning, must be spearheaded by young children. This is the classic 'generation gap': major internal social change has to be generational. A language 'dies' not when its last speaker dies, but when the last batch of infants acquires it as a native code. And mass illiteracy 'dies' not when the last adult is made literate, but when schooling and literacy become accessible to all children. Adults are to be given treatment, and kept comfortable, as the 'terminal' phase of an old system: they cannot, *en bloc*, be 'cured'. But from our children there can come a new beginning, and a different way!

A LOOK ACROSS THE WATERSHED

Half-a-century ago, and half-a-world away from the south Asian land-mass, there lived a community of Indians, a microcosm of Mother India, poised on the brink of a cataclysmic change. Having crossed the 'kala-papi' to journey to Trinidad, West Indies as labourers bonded to the vast sugar estates—after which family life in the agricultural community had picked up again and continued smoothly—they were now entering the vortex of a storm that would permanently change the aspirations, the self-image, indeed the entire mindset of the community. For the very first time they were sending their children to the new schools that had just been set up specially for them by the Canadian Mission.

The effects of this new school system on language loyalty and on literacy were dramatic. Year after year each new batch of Indian children switched first-language loyalty to English, the mainstream language, acquired literacy, and formed age-based peer groups, where earlier children had always worked and had had their strongest linkages within their own families. Within a span of 15 years—a single generation—the change was complete. Between 1931 and 1946 the literacy rate for the community had risen from 23 per cent to 41 per cent with child literacy accounting for most of the increase (Harewood 1975: *The Population of Trinidad and Tobago*, United Nations, Committee for the International Coordination of Research in Demography, Paris). Continuity had given way to discontinuity: 'The community was now 'through the gap' and into the big-had world!'

From this point on similarities between language behaviour and literacy can no longer be dismissed as sleight of analogy: the implicational relationships are crystal

clear. The Indians for whom English was native were literate. The Indians who were native-speakers of the Bhojpuri dialect despite being chronologically a part of the new generation were illiterate, and had not been to school (Mohan and Zador 1986: 'Discontinuity in a Life-Cycle: The Death of Trinidad Bhojpuri' in *Language* 66:2:291-319).

The schools had 'taught' literacy, yes, but they had actually done much more. They had broken the children's umbilical link to their families and replaced it with a direct link to the wider society and to each other. And they had inserted batch after batch of this new breed into a fresh environment that elicited literate behaviour. Being literate now was simply being part of a new generation!

Literacy, then, is not a simple 'extra skill' that can exist independent of its context. Literacy is part of the epiphenomenon of its associated level of social development. A 'low energy' subsistence-level phase of social development entails loyalty to a pre-literate dialect, age-independent cluster relationships—with the family as primary unit, the village as its extension, and the rest of the world as a great beyond—and communication interactive and face-to-face. The next plateau is a 'higher energy' 'regional' phase, where pre-literate dialect loyalty gives way to literate language loyalty, a subsistence economy to a market economy, age-independent social relationships to 'batch brotherhoods', variety to homogeneity, and face-to-face communication to the mass media. Village-based identities break down: most crucial to the 'literate' phase of social development is the concept of the 'regional mass'. The scale of things is now too large for one-to-one time-bound interaction. Control means that information has to be disseminated, one-way, to many destinations, and encoded for storage and later access. Another name for this new 'higher-energy' plateau is the 'landscape of literacy'.

The question of intervening into a living social system like the pre-literate dialect world and 'adjusting' a feature as emergent as literacy without intending to disrupt all other ongoing relationships, and without dramatic transformation of the life-style, the economy, and the very political aspirations of the group is beyond all imagination!

TWO-HEADED HYDRA

"...for many contemporary societies now labelled 'literate', much of the practice turns out to be ...writing names on crates of produce, keeping records of business transactions, writing cheques, etc. or, as in English factories, reading warning or instruction labels, one-word sign symbols and signing names and filling in forms" (Street 1984: *Literacy in Theory and Practice*, Cambridge University Press).

A good way of looking at life is to recognise that every big thing we embark on doing we are doing for a reason. That reason may be conscious, but all too often it is not. Fixed in our minds is an image of something we are seeking to achieve, some important transformation.

We do well when we analyse our motives and goals, because they carry locked within them a host of unconscious biases and assumptions, and egocentric conceptions of the 'ideal state'. We think we believe that the best thing for everyone else would be to be like 'us'. The point that others may be sceptical of our deeper motives is lost on us. Why do we want to promote 'literacy', and why might a community wish to become 'literate'?

To answer the first question, if a bit cynically: "the actual examples of literacy in different societies that are available to us suggest that it is more often 'restrictive' and hegemonic, and concerned with instilling discipline and exercising social control (Street: op cit. 4). "The introduction of literacy is always accompanied by the introduction of new forms of social organisation" wherein "to the middle class, 'illiterates' (are) conceived as dangerous to the social order, as alien to the dominant culture" (Street: op cit: 103, 105).

Simply put, a patronage system can only be put in place once the dominant culture makes the first gesture of offering a favour to those yet outside the ambit of the system. As long as they are not drawn to try to benefit from participation in the system, we are not in a position to control their aspirations within a dominant culture based on failure, exclusion, and 'learning your place'.

I do not think we even delude ourselves that the reason we wish them all to be literate is that we look to them to share in leadership. No, we need their inclusion because the new socio-economic order demands a totality of linkage so as to ensure proper discipline in a society regulated by more formalised laws, and the greater 'productivity' promised by an 'educated' work-force capable of engaging the level of technology used by our global competitors. We are even willing to 'bestow' the genetically ordained skill of literacy in exchange for the possibility of lower fertility rates in our subsistence-level populations, who outnumber us, and who are alien to our dominant belief system. This certainly makes more sense than persistently seeing ourselves as misunderstood do-gooders faced with stubborn, childlike masses who thwart us by refusing to learn. We, too, are simply human, and self-serving!

So here is where we come to the answer to the question with which we opened this discourse: why adults, when they are such notoriously bad learners? Social discipline... productivity... engagement of technology... reduction of fertility: these big concerns that underpin our commitment to the universalisation of literacy are unmistakably adult-centred. We ourselves are too unfree to think in terms of setting long-term goals: we are helplessly reactive. In panic at the thought of being 'left behind', we are obsessed with 'catching up', even if this means chasing the trail we think we see behind the success of our global competitors. But too-smart-by-half, we wish to extricate out of the transformation only the convenient aspects, and try to skirt the internal upheavals that would

certainly threaten the known feudal order. We refuse to see how these 'success stories' really managed the change. Once again, as with perceptions of 'capitalist' success, we have failed to see the 'success' as linked to the larger processes, with the entailed sacrifices and transformations. We like to think of adults because we can only think in terms of end-products. And that is the surest sign of a true 'follower'. We have lost the initiative!

But our 'hydra' has another head, the aspirations of the excluded ones who are truly curious about the world of literacy. For them the transition to literacy is more of an environmental imperative. Among our subsistence-level populations, there is a major component which is still engaged in bare survival behaviour and they wisely know that they have things to do before they turn their attention to our airy promises. But the others are aware that it is time to move on, not because they enterprisingly want to 'better themselves', but because they know that they must 'migrate' from the devastated world of subsistence and pre-literacy to the 'citadels' of opportunity.

To remain in place is no longer to maintain a sensible equilibrium in life. The equilibrium of the old world is forever gone. To stay in place is to remain forever marginal, powerless, forgotten. Move on! In geographical space, and in mind, they are making the cataclysmic journey through 'the gap' like the pilot-group half-a-world away did half-a-century ago. And almost instinctually, they can 'see' in the tempo of evolutionary change. They themselves will make *ad hoc* attempts to chip away at their illiteracy. But they do not hold out much hope of 'fluent' literacy for themselves. They have managed a life with the skills they have, and they are old. The rewards of their awesome journey must come to... their children! For these men and women can see the continuity, and hold this as their very own pride and accomplishment. They are ready to fashion a generation of offspring fundamentally different from themselves!

'Two-headed hydra': a metaphor of human society! And a source of endless confusion and double-think. On the one hand the forces of 'jnana', brahminical control posed as impersonal rationality and law, seeking its own perpetuation, and 'bhakti', the mystically poetic hopes, dreams, devotion of those on the outside, with their own reasons to 'love' the cosmology that exploits them. Together they form a living whole. From bhakti this world gets its glimpses of all-things-new, and therefore all things threatening to the internal consistency spelled out by the world of jnana. And it is given to jnana to judge, include and reconcile, slowly, and to maintain humanity's equilibrium with room for progress, for growth, for stability, forever.

IF ONLY CHILDREN COULD VOTE...

How is it, I ask, that every recent learning experiment in this country aimed at effecting radical and immediate transformation

by focusing on adults has been dreamt up in an instant of time by a politician in power?

If we look a little dispassionately at Mother India we see a dominant culture which is truly not very tuned to children. Our education budgets are upside-down behemoths of elite self-celebration. We out-do ourselves in largesse for the English-medium 'Indian Institute of Technology' sector—which, naturally, is attended over-whelmingly by middle-class male students—we spare a bit of cash for the genteel English-medium universities, and run on a shoe-string budget local language universities which cynically aim at diverting the minds of the disenfranchised from genuine social critique by taking up the most restless years of their lives and sequestering them in institutions.

As for primary and secondary education, one can safely say that the state is out of the picture: in place is a nasty triage, with the upper class taking direct care of its own children, and the middle class copying them to a fault, in a tiny sector of English-medium schools, which thwart any possibility of Indian children forming larger age-based peer-group linkages, by segregating 'fancy' children away from all the 'others'. Because it is *de rigueur* to include the poor into the system—for disciplinary reasons—there exists a government-sector school system in the local languages to handle the ones who are to be gradully excluded and demoralised. No one is even pretending to think, any more, of universal primary education, and of dismantling the old feudal segregation by mixing 'our' kids with 'theirs'.

We are a grown-up country! We want to play with the big boys! And the commercial sector blissfully follows: there are very few children's products, children's advertisements or children's films. 'Children', they assert knowledgeably, "have no independent purchasing power".

This malaise is, unfortunately, intrinsic to our new dominant culture, the harsh and un-nurturing world of jnana, which can only celebrate end-products. How this fragmentation came to pass is all in keeping with the ethos of jnana, which centres around reductionism. In this ethos, society is 'comprehended' by a process of segmentation into natural blocs, with one bloc as central and dominant. This central bloc in today's world is the male of the dominant culture within the age-range of 25-55 years give-or-take a tiny margin. Everyone else—the overwhelming majority!—can now be categorised as 'female', 'old', 'young', 'poor' and 'ethnic minority'. It is interesting to note that among these five 'marginal' categories, the only bloc that is not also a 'vote bank' is... children!

So again we have a 'two-headed hydra' contest, between order for the present and openness and continuity into the future. Order for the present is, unfortunately, a rigid 'brahminical' order: it is restrictive with the limited resources in its hands, resources which it keeps under its exclusive control to ensure the temporal power granted by its adult vote banks. It is supremely

afraid, in its ascendancy, of entering into dialogue with the powers of bhakti, which offer an open-ended future—but at the insupportable cost of constant and sometimes turbulent change. Reductionist to a fault, it cannot conceive of a 'better' future in which its present position is at all affected. It cannot see itself as 'continuous' in time and space with a larger configuration which shares much of its own aspirations. So it will keep on making feeble attempts to chase the world by selectively doling out 'aid' to those 'voters' least capable of using the opportunity to truly blossom: 'marginal adults'!

MANAGING AN INTERREGNUM

The only problem, you see, is that the system, so mighty when viewed from below, is actually faced with serious internal crisis whose outward manifestations will not be slow in coming. It is patently not 'successful'; it is uncompetitive, in the big global arena, it is slow to respond to environmental change, it is rapidly being overrun from outside. Decisions affecting our lives will soon be taken not here, but in 'headquarters', as they were not so long ago. If we do not accept the responsibility for schooling our own children, it will be done for us by others, in accordance with global imperatives—or a global triage—we would once have had the courage to reject outright. In the cold light of crisis, it is time to pause, abandon our perpetual 'reaction mode', and start setting our own forward-looking agenda and targets, to plan for a world that cannot then marginalise us. And the most realistic target date for a new confrontation with the big world would be the year 2010—the year in which our present crop of three-year olds will be ready to graduate from college and 'play for India'. That means we have a 17-year gestation full of hard and now unfamiliar work ahead.

Our first step must be to re-situate literacy back into its old environment of general schooling: literacy cannot be promoted or sustained in isolation from the larger 'landscape of literacy' accessible to the 'hatch-brotherhoods' of the classroom.

The second step must be to re-recognise the genetically-bestowed species-specific character of literacy, and to break sharply with the past by opening up the schooling system to all children in the entry level age-group, where it must become compulsory. Our schoolrooms must also be made to represent an 'average sample' of the Indian socio-economic spectrum, and 'feudal' segregation be ended—for this 'feudal' segregation is actually none other than the old 'family-bonds' of the pre-literate world. To get anywhere in this fast-moving world, our society needs that much of a shaking up.

The third terrifying step must be to exercise our imaginations to the limit, to design for the still-unreal world of the year 2010, where the skills in demand will certainly be sharply different from those imparted by our schools today. We have to take a deep breath, say a prayer, and seize back the

initiative. And build a learning system of agenda and targets capable of response to the pressures of a changing world—where we will not be around to show the way. Our security in our old age lies in empowering our children to be responsible for us.

The literacy rate will climb, but it will climb realistically. We will remain with a large 'illiterate' population—paradoxically committed to a future of literacy. They too have an important role to play in the great transition and it is largely a nurturing role. They should have access, if they so desire, to being empowered to help and guide the younger generation, to keep a step ahead of them in the early stages of schooling. They must be allowed to keep 'face', for they are the living role-models of the new generation, our 'most special ancestors'.

They have lived a full life without the help of literacy, and the new literacy skills they might acquire in the transition to the new world of the market will almost certainly be *ad hoc*, unsystematic, and inadequate for 'reclassifying' them as literate. But there is much scope for adult 'literacy' instruction aimed not just at the *ad hoc* skills of the market-place, but also at glimpses into the more fascinating world their children are to inherit—with their help and support. But reading has its season. As any adult who has ever learned a new language with a different script will tell you: you feel so awfully dumb dissecting and deciphering text at a speed so far below thought-speed. You know you are not actually 'reading'. You really do give up. Only a child could handle an experience like that.

But there is a bridge, between the two worlds, a bridge known best to children, to pre-literate parents, and to only the most whimsically imaginative of teachers, and that is the world of stories. Stories are structures as old as human thought, full of the hopes, dreams, fears and complexities of humanity. It is in our stories that we best pass on the lore of ages and keep moving on. Real stories, not condescending text fashioned out of 'simple' language and silly, sugary message. It has been quite a while since our children and their parents have been energised by living stories in print, with true depth and linkage to cosmologies of hope. Stories to listen to, stories to remember, stories to read, stories to collect, story-books, comic-books, books children can love. Books that reconcile the opposing worlds of jnana and bhakti.

DOUBLE-HELIIX UNFOLDS

Our first toddling steps into the landscape of literacy. It is stories, stories which will open the way! Then we, the elders, will sit with the children and reveal the enchantment in the pages by reading aloud to them. And then, one day, impatient with us for having so little time, for leaving a story part-way, desperately curious to know what has happened to a 'friend' within the pages, they will pick up the story-book themselves, and move along the lines and paragraphs at 'the speed of thought'—pausing, at times, to ask

us the odd question or so—'swimming' in the current of the story, eyes stealing glances ahead in the text to catch surprises in store, as we do, as we do! For now they know the terrain, how stories begin, how they flow, how they end—how our world organises its information. They know how to ride the 'carrier wave' of story-grammar and enter into 'mindlock' with the writer.

And on their own they take the next step. They are obsessed with stars, or with dinosaurs, or with cats. One day they come home proudly spouting expert information: they happened upon a book, in the school library, right on their wavelength, and they devoured it in one go. And they get high on their 'power'.

This new 'power' is special, because it brings access to more than just the future. Entry into the landscape of literacy brings a child a special companionship, tireless two-dimensional friends to answer all questions, an end to boredom and loneliness. And it gives a child a chance to write back to this world and in so doing to understand how we 'package' our thoughts to share with a larger world of strangers and friends far away who cannot hear us now. By the time the plateau-landscape of literacy has been reached, the hard climb is over. As with language, it no longer keeps getting more difficult—all that gets added is more detail.

"In you the seeds of grey almonds guessed a tree's shape": the double-helix is alive and knows the journey it has to make. It was all 'written', so very long ago: the possibility of it all, the journey itself, the quantum gap sealing off the low-energy plateau from the vast energised landscape of literacy, the lemming-like impulse to pilot the fragile human craft through the irreversible gap, the empowered-but-vulnerable world across the gap. It is happening: we have but to open our eyes to see it. It is happening in spite of us, in spite of our confused efforts which search out only those who cannot inherit this brave new world. And, failing to facilitate the transition, we intrude, we intrude in our subconscious elitist fear of change. Open your eyes and learn from the parents, who will cross the gap not for themselves, but to give their children a better world. They know something we do not!

It gives a moment's pause to grasp the bewildering truth that we may not be the ones who 'know' when our minds flow separate from the current of the natural order. But that, too, is a part of the journey, which must begin with a 'flight from', to end in a 'flight to', to the open road leading us home. We, too, make a journey to learn, to rebel against the pace of nature, but to ultimately reach the evening of our lives wiser and able to trust and to truly help. If all we have learned along the way is that the thing we so wish for is already ordained by the double-helix, we have learned humility. And from humility we gain the real strength: the strength to stand by, in hindsight and empathy, ready with our strength if it is needed, to lighten the burden of the ones only now making the crossing.



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Flexible Specialisation in India?

Mark Holmstrom

What about Ethics and Values in Management?

N R Sheth

Inter-Industry Variations in Capital Structure

Sidharth Sinha

India's Garment Exports

Somnath Chatterjee

Rakesh Mohan

Flexible Specialisation in India?

Mark Holmstrom

Small firms are fashionable in India; as elsewhere. They have been encouraged and subsidised simply because they are small not because some of them are innovative and hence potential. While there is little scope for Italian-style flexible specialisation in India for the time being, it is a better and more realistic aim than a separate 'small-scale sector'

INDIA has had a policy of encouraging 'small-scale industries', and discriminating against large firms. Small firms are supposed to tap reserves of entrepreneurial talent; to make for dispersed ownership, and also for geographical dispersal of industry and population in small towns; to make cheaper goods the masses can afford; and, to reduce social conflict because of close personal relations between employers and workers. Above all, it is claimed that small firms are more labour-intensive, more likely to use appropriate technologies, so they create more employment than large ones. But all these assumptions are doubtful: small firms are not always more labour-intensive than large ones, labour relations are no better and often worse; and so on [see Holmstrom 1984].

Many, perhaps most, of India's 'small-scale industries' exist only to get cheap labour, to evade labour laws and unions and to take advantage of cheap loans, government assistance and reserved lines of production. They are inefficient and their products are not cheap. They have failed to do what they were supposed to do. But some are hi-tech and innovative, produce quality products and teach people useful skills. Change the area of debate—from 'small-scale industries' to the potential of new production methods ('flexible specialisation') to achieve various ends: industrial growth (supplying high quality goods cheaply to Indians; competitive on world markets); more employment (not just for a skilled elite); more creative, interesting work, humane working conditions, and career opportunities.

The notion of flexible specialisation was introduced by Michael Piore and Charles Sabel [Sabel 1982, Piore and Sabel 1984] to explain why industrial economies (like Britain) dominated by the now traditional methods of Fordist mass production, 'deskilled' labour, hierarchical management, and ruthless competition between clearly bounded profit-maximising firms, were falling behind countries like Japan, Germany and Italy, which were adopting more flexible production methods, taking advantage of new technologies and more co-operative forms of social organisation. Other writers have criticised or refined the notion of flexible specialisation [Best 1990, Storper 1991, Pyke and Sengenberger 1992], and discussed

its relevance to developing countries [Schmitz 1989, Lyberaki and Smyth 1990, Rasmussen et al 1992, Schmitz and Musyck 1993].

In particular, Piore and Sabel sought to explain the success of networks of small- or middle-sized firms in certain regions. These firms work closely together, even with firms which sometimes compete with them, in local networks producing a range of similar or complementary products. The economist Alfred Marshall, writing early in the 20th century, called such networks 'industrial districts'. In the past 30 years or so, new technologies, new products and attitudes towards labour have revived and transformed the industrial district, allowing smaller firms to compete with and even overtake larger firms, filling niches in the market with high-quality goods, while providing high levels of employment at high wages.

The most striking examples of these new-style industrial districts are in north central Italy (which some Italians call the 'Third Italy'), especially the Emilia Romagna region:

It [flexible specialisation] is seen in the networks of technologically sophisticated, highly flexible manufacturing firms in central and north-western Italy. Flexible specialisation is a strategy of permanent innovation: accommodation to ceaseless change, rather than an effort to control it. This strategy is based on flexible multi-use equipment; skilled workers; and the creation, through politics, of an industrial community that restricts the forms of competition to those favouring innovation. For these reasons, the spread of flexible specialisation amounts to a revival of craft forms of production that were emarginated at the first industrial divide [in the 19th century, leading to mass production] [Piore and Sabel 1984:17].

Flexible specialisation is both a matter of economic advantage (producing for fragmented, rapidly changing markets) and political choice: if workers have any choice at all, they will no longer put up with Taylorist management and the working conditions of mass production.

There are large- and small-scale variants of flexible specialisation. Large German firms like Thyssen involve workers in quality control and innovation by decentralising decision-making within the firm (this can go with experiments like autonomous work

groups). In Japan, large firms do the same, and they subcontract work to small firms bound to them in long-term relationships of trust. Managers aim at 'driving fear out of the workplace' [Deming, in Best 1990:160], at solving problems rather than disciplining workers: 'The threat of being fired instils fear which inhibits learning and systemic improvement; furthermore, incentive, quota, and piecework systems of pay all foster competition rather than teamwork among workers and undermine morale because of their inherently arbitrary nature' [Best 1990:160].

In areas like the 'Third Italy', the most successful and dynamic firms are small- or middle-sized (I know the area because I have studied the workers' co-ops which are very strong there: [Holmstrom 1989]). This is a relatively classless part of Italy: there are few social barriers between employers and workers, who are used to discussing questions of quality and innovation with each other. Workers are constantly solving new problems and learning new skills. There is a strong union presence, though unions have had to adapt to new working practices.

Firms cluster in industrial districts, often making similar or complementary products. Entrepreneurs trust and help each other, both informally and through consortia for marketing, design, loan guarantees, etc, encouraged by the regional and local governments. Thus they achieve economies of scale, and the flexibility and information to compete in distant, fast changing and fragmented markets. Competition between firms is vigorous but limited by moral norms, enforced by public opinion within local communities.

This is sometimes called the 'Emilian model' because it has been most successful in the region of Emilia Romagna. Sabel describes it as

a system of high-technology cottage industry that does in a decentralised way what large innovative companies like the Thyssen speciality steel division do within the framework of huge organisations: create new demand by filling needs that potential customers have only begun to suspect were there... The innovative capacity of this type of [small] firm depends on its flexible use of technology; its close relations with other, similarly innovative firms in the same and adjacent sectors; and above all on the close collaboration of

workers with different kinds of expertise. These firms practice boldly and spontaneously the fusion of conception and execution, abstract and practical knowledge, that only a few exceptional giant firms such as Thyssen have so far been able to achieve on a grand scale, and then...only by disregarding the rules of Fordism [Sabel 1984: 223-24].

The right balance between co-operation and competition depends on trust between entrepreneurs, and between employers and employees ["Mistrust freezes the technological progress of a whole sector; trust fosters it": Sabel 1984: 226]. This reduces the risk for those who start their own firms or develop new products, since "these decisions are taken, within a framework of mutual co-operation, in the hope that, should things not work out, all would not be lost" [Dei Ottati 1991: 56]. An entrepreneur can go back to being an employee, or can produce for other firms. Even if individual firms cannot offer the same job security as a large firm, "people who live and work in the district feel confident, even in adverse circumstance, that they will be able to find a job in the area... Even if no one (or almost no one) is completely free of uncertainty, yet everyone can feel fairly certain of not being overwhelmed by it" [Dei Ottati 1991: 62-63]. The network of social and economic relations within the industrial district gives workers and their employers most of the advantages of a large firm, without the disadvantages.

The Third Italy may not be utopia—as Sabel (1984:220) almost depicts it—but it is undoubtedly a success story, especially for small- and middle-sized firms. It has achieved rapid economic growth and nearly full employment at high wages, with interesting work and career opportunities for workers, men and women. Other success stories include the regions of Baden-Württemberg in Germany, and West Jutland in Denmark [Pyke and Sengenberger 1992, Schmitz and Musyck 1993].

If these things are happening, there are clear advantages for consumers as well as workers. This is fine for rich countries, perhaps, though even here there are what Swasti Mitter calls 'flexible casualties'—an underclass of casual workers in sweatshops [Schmitz 1991: 17]. But where there is surplus labour, competition leads to sweated labour rather than innovation. This could mean the export of Fordism to developing countries, or to women, or to women in developing countries.

The debate about flexible specialisation is no longer just about the prospects for rich industrial countries. It is also about whether flexible specialisation offers a way forward for industrialising countries like India, or perhaps the only way forward. If Fordism reaches a dead end, is the alternative to be

flexible specialisation? Or sweated labour without the benefits of Fordism, like high pay? And what kinds of research can suggest possible ways out?

As markets become fragmented and the pace of innovation faster, everyone seems to agree that production methods and labour need to become more flexible to meet the challenge of the times; but there agreement ends, because 'flexibility' is dangerously ambiguous. It can—and in practice often does—mean a one-sided bargain between employers and workers. Old skills, customs, conventions and restrictions are swept away in an attempt to raise productivity and cut costs. From now on workers must be prepared to learn new skills and turn their hand to any kind of work, familiar or unfamiliar, in whatever conditions suit the employer; but workers do not participate actively in decisions about production, since that is the prerogative of managers (sometimes called 'Management's right to manage', with echoes of the divine right of kings). Nor does the worker have any security of employment: the size of the labour force is flexible, and can easily be reduced or expanded to match demand for the product. If labour legislation and/or unions limit these sorts of flexibility, they are regarded as obstacles to economic growth.

Flexibility...can take the form of 'active versatility' or 'passive pliability' [Semlinger 1990]: that is, it can consist of the ability to exploit market niches and quickly respond to orders, based on a skilled and polyvalent labour force; or it can also mean simply to submit to outside pressures from customers, and to accept cutbacks, and to pass on the flexibility requirements of the market to the workforce in a coercive manner through expanding and retrenching production volume, forcing wage concessions, making 'flexible' use of short-time and casual employment, etc.

Small firms run a high risk of indulging in the second form of flexibility, as they are often exempted from protective regulation; they often have no formalised industrial relations, no union representation, and no works councils; employer-employee relationships are frequently highly personalised and patriarchal. [Sengenberger and Pyke 1992:14].

Daniele Leborgne and Alain Lipietz make a similar distinction between 'defensive' and 'offensive' flexibility [Leborgne and Lipietz 1991:42]. Defensive flexibility, typical of British, French and American industry, means unregulated wages, neo-Taylorist management, and a social gulf separating 'designers' from manual workers. Offensive flexibility, more typical in Germany, Japan, Sweden and parts of Italy, means 'Kalmarian' management (so called after the experiments in participatory management at the Volvo car factory in Kalmar, Sweden); social guarantees in exchange for

workers' involvement in quality and productivity; urban areas with flexible and diversified production systems; and a partnership between companies, unions, educational institutions and local government.

For a country in India's position—with a massive surplus of labour, including many kinds of highly-skilled labour—there appear to be three possible paths to development. One is Fordist or Taylorist mass production (boring, deskilled, but well-paid for those lucky enough to find jobs). India might conceivably move into this kind of production as the rich industrial countries move out of it. This shades into the second option, low-paid insecure work for as many people as possible, capitalising on the single advantage of cheap labour. The more hopeful scenario is something on the lines of flexible specialisation, of the large- or small-firm variety, preferably both.

Sengenberger and Pyke call these last two options the 'low road' and the 'high road' to industrial restructuring. The 'low road'

consists of seeking competitiveness through low labour cost, and a deregulated labour market environment. It is believed that cost-cutting will boost productivity and profits, and create new employment. Institutions and rules aimed at regulating competition are seen as mere straitjackets, and should be kept to a minimum [Sengenberger and Pyke 1992: 12].

This brings a short-lived improvement in competitive performance at best. In the long run it makes matters worse, because it inhibits firms from building up the flexibly-skilled self-confident workforce they are going to need if they are to compete.

The principal alternative to such 'destructive' competition is the 'high road' of constructive competition, based on efficiency enhancement and innovation;... through economic gains that make wage gains and improvements in social conditions feasible, as well as safeguarding workers' rights and providing adequate standards of social protection (:12).

A virtuous circle instead of a vicious one. But is it realistic to hope for such an outcome in India, in the foreseeable future?

Some possible outcomes are shown in the Table:

	Small Firms	Large Firms
High road	Flexible specialisation, Italian style (Eniian model)	'offensive flexibility' [Leborgne and Lipietz]: Kalmarian management
Low road	Sweatshops, insecure labour	'defensive flexibility' neo-Taylorism

Recent policy changes—which have been discussed for years but now seem inevitable—have opened up the Indian economy to

world markets. There is no alternative to export-led industrialisation, and that means quality and innovation. India's large firms may be near the limits of Fordist mass production, as low wages no longer give industrialising countries as much comparative advantage as they did before [Best 1990: 259]. Talk of 'flexibility' in India has come to mean little more than a docile, unprotected and disposable workforce. Unless Indian firms change their ways—as some of them are doing—they will lose both foreign and domestic markets.

Most of the small firms, on which so much official effort has been lavished, cannot offer quality goods to the market; nor enough employment; nor decent wages, security and tolerable working conditions to their employees. Yet the picture is not so black everywhere: some firms, some industries and some towns give reasons for hope that an Indian model of flexible specialisation, having some similarities with the 'Emilian model', might develop in India, may already be developing in some places, or might be encouraged by national or local governments: local networks of innovative firms, many of them small- or middle-sized, but not a small-scale 'sector' needing protective discrimination. Small is not always beautiful.

Flexible specialisation has achieved several good things, in Italy and elsewhere. Is it possible to achieve at least some of the same things, by some of the same means, in some parts of India? In particular, what are the chances of incorporating some elements of the Emilian model into Indian small and medium firms (without drawing a sharp line between 'small-scale' and large)?

Of course one could not replicate the model in India, even if social and economic conditions were more alike than they are; but there may be useful lessons. If anything like the conditions which favoured flexible specialisation in Italy exist in India, or could be brought into being, there is at least a good chance that similar causes will give similar results.

We need to distinguish between objectives, because it may be possible to achieve some but not others, or not for a long time. Here is a list most readers would agree on:

industrial growth, in the national interest, by breaking into world markets for high-quality goods. (In the short run, this has nothing to do with employment or equity. In the long run, it could lead to higher standards of living for everyone.)

more employment, especially for those who need jobs most urgently (women?).

good wages and security for those who already have jobs. (For most Indian workers, security comes first: either a secure job, or a good chance of finding another).

better work for these people: interesting

autonomous work in good physical conditions, with chances to learn new skills and to build a career—a line leading somewhere, not just a succession of unrelated jobs (see Holmstrom 1976: 122-35 on Indian workers' idea of a career).

If flexible specialisation can achieve any one of these things, it is worth trying. In practice the good things may go together (for example, if workers who feel secure and find their work interesting make better-quality goods); unless solving one problem would make other things worse (e.g. if good jobs for skilled workers leave the unskilled majority absolutely, not just relatively, worse off).

First the good news, the *grounds for optimism*: conditions which exist, or might be brought about, and which suggest flexible specialisation might work in India:

(1) *Craft traditions*: India has strong craft traditions, capable of modernisation, as in Italy. Some Indian craftsmen—whether or not their skills developed out of an old caste specialisation—show astonishing capacity for innovation with limited resources.

(2) *Potential industrial districts*: Some areas (like Bangalore) have the potential to become 'industrial districts', as in Italy. Small firms depend on each other well as on large ones [see Holmstrom 1984: 128-29 on the micro-economy of one Bangalore street]. A high proportion of entrepreneurs are engineers, or skilled workers trained in large factories, rather than financiers.

Technologies like numerically controlled machine tools are becoming available and are widely used, even in small firms. They should get cheaper (especially second-hand), and Indian workers can learn to use them in innovative ways; as they do in Italy [I have seen them at it, both in Italy and India; cf Piore and Sabel 1984: 219] or in Japan [where "Operators on the shop floor make continual programming changes and are responsible for writing new programmes for both parts and systems as a whole": Jaikumar 1986: 72].

There are informal networks of mutual aid among Indian entrepreneurs. Now consortia or associations of entrepreneurs making similar or complementary products are becoming important, though not on anything like the Italian scale.

In Bangalore, when the public sector Indian Telephone Industries told its ancillaries it was modernising its products (not before time) and would no longer require their services, they formed a consortium Anco, designed their own telephone, and persuaded ITI to market it, while they develop new products they can market themselves.

The state could encourage this trend [“The creation of an innovative climate in the industrial sector could be achieved through the further encouragement of research and

development in enterprises and the formulation of research consortia among companies”: Unido 1990: xxi]. They need consortia not just for research and development, but for marketing, as in Italy.

The state already provides some services which could be developed in partnership with consortia: thus the excellent Small Industries Service Institutes, in all major towns, give advice, training, and machining in their own workshops. In Bangalore the Central Machine Tools Institute, though set up to serve national needs, provides valuable training, services and ideas to local small firms.

(3) *Labour*: “Flexible production... cannot be transferred willy-nilly to uneducated and unskilled third world labour forces; it requires the development of considerable production skills, which are produced via both formal education and practical experience in the local labour market” [Storper 1991: 113]. But India, like Italy, has large numbers of workers with diverse engineering and other skills, learnt in factories, workshops, or public and private institutes (even if these workers are a small minority of the population). Indeed, India exports skilled labour all over the world. Many Indian workers are well educated, numerate and self-confident, capable of understanding complex technologies and solving problems in consultation with engineers. Others, lacking any formal training, learn fast on the job. Some go on to become successful entrepreneurs.

(4) *Unions*: A strong union presence can prevent employers from squeezing labour, and push them to innovate instead.

To the extent that unions can organise in small firms on the basis of promoting skill-based work organisation, they can simultaneously improve the position of members and the firms in which they work. The idea of the missing middle (that displaced workers inevitably end up in lower waged jobs) is not a necessary outcome of increased flexibility; instead it is one possibility which will be more likely if unions do not seek an active response to the New Competition [Best 1990: 275].

In Italy, unions and elected works councils are present by law in all firms except very small ones, though unions have been slow to adapt to the different conditions in smaller firms [Brusco 1992] or in workers' co-operatives. India has strong (though divided) unions in the bigger firms, which are spreading to middle-sized and smaller firms in some sectors at least.

(5) *There is no alternative*: Fordism is dying, or at least the classical Fordism which offered high wages in exchange for mindless boredom. “Indigenous Fordism” [Heuze 1990] will degenerate into sweated labour. The Indian economy is being opened up to

world markets and export-led industrialisation anyway, and this means rapid innovation, niche marketing and the rest. If you cannot beat them, join them.

Now the bad news, the *grounds for pessimism*:

(1) *Relations of trust confined to closed groups and fragile?*: In India, the solidarity of small firms, or of craftsmen, is often (but by no means always) based on kinship and ethnic ties which exclude all outsiders and limit the scope for growth, especially in employment.

Trust, ...as a foundation of economic relations, is a 'double-edged sword': it can retard economic development where it is a strictly private form of transactional co-ordination, as in the case of mafias or aristocracies, for these, by definition, restrict the entry of new producers; where trust is highly generalised and public, on the other hand, it serves to sustain transactions and reduce the costs for established producers, while at the same time allowing new entrants into the community [Storper 1991:112].

In the past, at least, many Indian entrepreneurs—especially those with a financial rather than a technical background—have been notoriously suspicious of anyone outside (and sometimes inside) their own family, caste or religious community, and unwilling to share information.

(2) *Politics*: This lack of trust extends to relations between businessmen and politicians or civil servants, who are assumed to be corrupt even when they are not. The 'Emilian model' has been fostered by political stimulus and intervention, especially by local and regional governments which are both honest and efficient (at least in this part of Italy).

The activity of local government included both direct policies in support of economic development and, especially, policies in the social field which were directed at mediating the effects of the market as a regulator of the economy and of employment. The creation of industrial estates for small firms, the provision of professional training and of infrastructure and support for the formation of consortia among the firms for the purposes of marketing or export facilities are examples of the first type of policy. Communes [local governments] also became increasingly involved in attempts to find solutions to crises in those firms which were particularly important to the economy and to employment in the area. This often involved putting pressure on regional and national government to grant redundancy payments to the workers and even interceding with local banks on questions of credit. It also involved mediating between local unions and entrepreneurs [Trigilia 1989: 189-90; and see Murray 1991 on similar initiatives in Italy and elsewhere in Europe.]

In India, it may be argued that civil society is weak and the necessary political institu-

tions are not well developed, e.g. local government based on widely shared ideas of common good. Is India like south Italy rather than Emilia Romagna?

(3) *Vulnerable labour, badly organised unions*:

In their formulation of the flexible specialisation model Piore and Sabel stress that the main weapon in competition is permanent innovation, because squeezing labour is not an option...Due to the size of the labour surplus in LDCs, competition emphasises sweating labour rather than innovation. [Schmitz 1989:30-31]

India has vast reserves of surplus labour, much of it skilled, so labour is vulnerable to exploitation, especially in small firms. Unions are weak in these sectors. Few unions have adapted their strategy to the needs of workers in small firms, and most unions have been dominated by unaccountable leaders and elites: however these things may be changing.

(4) *Too late to join the race?*: Small firms may show great ingenuity in solving technical problems, but access to markets and the expense of new technology, research and development, may give large firms and multinationals an unbeatable lead. It may be too late for small firms to compete on price, delivery and quality. If so, a better solution may be decentralisation and flexible production within large firms, with smaller satellite firms closely involved in production and forward planning: in a word, Japan.

TENTATIVE CONCLUSIONS

There appears to be limited scope for Italian-style flexible specialisation in India for the time being, but still this is a better and more realistic aim than a separate 'small-scale sector'. Flexible specialisation is the logical next step for the innovative and technological advanced small firms which exist now.

Small firms are fashionable, in India and elsewhere. They have been encouraged and subsidised simply because they are small, not because some of them are innovative and have potential. "What is missing is a set of criteria to distinguish SSIs [small-scale industries] which efficiently utilise the assistance provided from those which do not" [Unido 1990:120]. The mistake is thinking crudely in sectors (large/small, urban/rural, 'industry'/agriculture...). Policies should be more carefully targeted.

Policy and research should not concentrate exclusively on entrepreneurs and entrepreneurship (as much writing on small firms does) but should also consider labour—the kinds of workers, their careers and opinions, and the conditions they work in: not

just for social and political reasons, but because a different sort of labour, employed in conditions where workers constantly learn new skills, is needed to achieve the rapid economic growth which flexible specialisation could make possible in some places. There may also be an opening for workers' co-operatives (like Kamani Tubes of Bombay) or other forms of self-management.

In the past, perhaps, India has had too much government intervention of the wrong sort (licences, quotas, products reserved for the 'small-scale sector'—much of this is now being swept away) and not enough of the right sort. However some current policies favour flexible specialisation: e.g. the Small Industries Service Institutes, and the extension of protective legislation to workers in smaller firms (making it harder to squeeze labour).

In discussing policy issues, remember that although technology and markets push us in certain directions, there is always—or almost always—a choice, which depends on the values and perceptions of workers, managers and planners. These choices are not just economic or technical, but social, moral and political: they are about trust, solidarity, equality and justice.

I am a social anthropologist. I am exploring, with Indian and foreign colleagues in various disciplines, the possibility of a collaborative programme of research on the conditions in which an Indian form of flexible specialisation might emerge, but not only among smaller firms: whether those conditions exist already, or could be brought about by deliberate action.

Some questions call for sample surveys, collation of available statistics, etc; others for case studies, following up networks of acquaintances, business contacts, relatives, etc. Promising topics include:

Innovative small firms: where are they?

Industrial districts? Areas with the potential to become industrial districts, on the Italian model; and areas where this seems unlikely.

Trust and co-operation: extent and limits. Consortia: Networks of mutual aid and informal co-operation among entrepreneurs: how far are these limited to closed groups (caste, family, religious community) which exclude outsiders?

Markets: Relations between small firms and markets. Marketing through consortia, government bodies, agents, specialised marketing firms (like Italian *'impannatori'*). How far do decisions on production reflect up-to-date knowledge of markets by entrepreneurs and workers, and a capacity to anticipate market changes?

Subcontracting by small firms for larger firms, or for other small firms: 'Capacity-

or 'specialisation-subcontracting' ('defined respectively as subcontracting of work because the parent firm lacks the capacity to perform all the work at a particular moment, and subcontracting in which the subcontractor has something to offer (i.e. skills, machines, and the like) which the parent firm does not possess' [Van der Loop 1992:107]).

Capital and credit: How do innovative small firms find capital, or fail to find it? Scope for loan guarantee agencies, or other new ways of raising capital.

Government agencies, like the Small Industries Service Institutes: Their objectives, success, and possible extension. The role of local government in working with local firms to provide what the Italians call 'real services' ['The provision of real services involves supplying companies, in return for payment, with those goods and services that they require instead of giving them the money that they need to go out and buy these goods or services on the market': Brusco 1992:187]. Such real services may include training workers and entrepreneurs, accountancy, design, consultancy, advice on marketing and technical standards required in export markets, testing raw materials.

Financier and technician entrepreneurs: Entrepreneurs' social origins and careers. Are there important differences between entrepreneurs with a financial background, and those with a technical background (engineers or skilled workers), in their capacity for innovation and their willingness to trust each other, or their workers?

Labour

There is a tendency to look at the employment of 'entrepreneurs' or owners of small firms and much less with the workforce (paid or unpaid). Here the cause lies with methodological choices, in the sense that micro studies are usually based on interviews with the owners of firms, and with methodological problems, particularly in gathering reliable information on a fluctuating and often unpaid labour force [Lyberaki and Smyth 1990:139].

The problem is not only practical, but ideological; the assumption that 'entrepreneurship' is the critical missing ingredient in development, to be sought out or stimulated.

Study workers in firms of different sizes, with different technologies. Their social origins and careers; perceptions of a job and a career. How skills are learnt. Job finding networks for men and women (and how far are these limited to closed groups which exclude outsiders?) Job security, and chances of finding another job.

The labour process in small and large firms. In particular, how 'NC' machine tools are used (to deskill labour, or as a tool in the hands of the craftsman or woman?)

Unions. The role of unions (if any), especially in smaller firms with new working practices.

Compare (and contrast?) India and Italy. Features said to account for success of the Emilian model. Can they be transferred or replicated (different economic conditions, culture and history - or is this not the point at all?)

Industrial democracy? Prospects for industrial democracy or self-management (e.g. workers' co-operatives)? This topic is an outsider, but it interests me.

[This is a revised and expanded version of a paper presented to a workshop on 'New Approaches to Industrialisation: Flexible Production and Innovation Networks in the South' organised by the European Association of Development Institutes at Lund, Sweden, in June 1992. It had already gone through several reincarnations, as a lecture or seminar paper at the Universities of East Anglia, Bombay, and Leeds; the National Labour Institute, Noida, near Delhi; the Administrative Staff College of India, Hyderabad; the Institute of Social and Economic Change, Bangalore; the Indira Gandhi Institute of Development Research, Bombay; the Centre of Asian Studies, Amsterdam (CASA); and the Centre d'études de l'Inde et de l'Asie du sud, Paris. I am grateful to all who attended these lectures and seminars, and to many others, especially in India, who advised me and suggested useful topics for research, and ways to go about it.]

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What about Ethics and Values in Management?

N R Sheth

Ethics and values are likely to occupy a prominent place in the emerging scenario of professional management in India and elsewhere. Management schools in the west and to some extent in India have begun to incorporate the teaching of ethics and values in their courses. However, formal learning of this sort can only have limited results.

ONE can observe a growing interest among management scholars and professionals in the need for promotion of social ethics and values in management practice. Management education and development programmes in recent years have progressively paid more attention to the relevance of ethics and values in business and the ways in which these can be incorporated in the learning process of potential and practising managers. Management schools have begun to find themselves under persuasion or pressure to introduce research and educational programmes in ethics and values usually subsumed under the title 'business ethics'. This trend seems to be a part of a global phenomenon. Some leading management schools in the west, including the prestigious Harvard Business School, have recently introduced teaching and research programmes in business ethics.¹ Similar programmes have also been initiated in a few Indian management schools.² Ethics and values are likely to occupy a prominent place in the emerging scenario of professional management in India and elsewhere.

DIALECTIC OF MODERN LIVING

These developments are, interestingly, an aspect of the dialectic of modern social living. We do not need validated research findings to conclude that managerial behaviour shows an escalating degradation of the generally accepted norms of business ethics in terms of moral standards. Among the elite of all shades, this degradation of ethics and values is indeed the talk-of-the-town. It is freely expressed and induces a lot of disapproval and grief.³ We witness or hear about growing preoccupation with self-interest which implies lust for wealth, power and recognition and erosion of work ethic with concomitant ideas of commitment, responsibility and accountability. We consistently learn about unethical collusions among individuals and groups for appointments, contracts, promotions, tax evasions and other favours of a thousand kinds. The value of a manager is often measured in terms of one's ability to steamroll the environment for immediate results or for immediate personal or organisational gain regardless of its consequences for others and the society at large.

How do we connect this deterioration in ethics with the special attention being paid to values and ethics in the world of profes-

sional management as stated in the opening passage? Obviously it is easy to argue that the widening concern for business ethics arises from the falling standards of ethics in managerial behaviour. JRD Tata expresses this link unambiguously in the statement "There is indeed a need to rekindle old principles and ethical values which have too often been ignored or neglected in recent years in the false belief that quicker profits and greater accumulation of wealth would be the result".⁴ This argument is impeccable in the context of the current managerial reality. However, we begin begging the question if we assume that violation or neglect of ethical values is a phenomenon of recent years. We have no evidence to suggest that managers of economic and social enterprise in the past were uniformly adherents of the contemporary ethical code. The dramatised versions of our history and mythology increasingly brought to us by television in fact serve to remind us that unethical and immoral behaviour has dotted the practice of management and statecraft all along our cultural chronology. Stories of the activities of princes and ministers in the great Indian epics and ancient history give plenty of clues regarding the existence of unethical practices. Such evidence should be easily available for successive periods in the history of India and other societies. Human society has probably always had to contend with people in authority or those wielding power and influence defying the ethical and moral norms for personal or sectional gains. Such people have often led their communities or kingdoms to decay and destruction.

CHANGING SOCIAL CONTEXT

So, what is new about degradation of ethics and values in today's managerial behaviour? Perhaps the size, the scale and the complexity of resource management in a society would give us crucial clues in this regard. Human society and any enterprise within it should by definition be regarded as facets of a moral order. For the code of ethics and morality serve as the central control system to hold the society together with stability and consistency. In a small and homogeneous society, it would be easy to deal with violation of the moral code in view of the close and direct conduct of socio-economic transactions. It is possible in a general way to think of the economic

enterprise in the days before the Industrial Revolution as characterised by such direct moral control. The code of ethics was based essentially on the scriptural norms of truth, honesty, integrity, kindness to fellow human beings and abstention from cheating, stealing, hoarding and violence. The impact of the Industrial Revolution was accompanied by the spirit of capitalism ("accumulate, accumulate, accumulate, such is the commandment of god"), growing individualism and liberalism and gradual separation of moral control from religion. The emerging economies of free enterprise promoted the social value of pursuit of self-interest and widened the distance between business and conventional norms of ethics and morality. As the rapid progress in science, technology, economics and management systems made business enterprise increasingly more complex and heterogeneous, the various groups and subgroups involved in enterprise management developed their distinct values in relation to their specific needs, ambitions and priorities. This trend was also in tandem with the growth of liberalism and individualism in democratic nation-states.

Within this socio-political framework, managerial conduct could be regarded as amoral in the conventional sense of morality. Such an assumption is contained in the approach designated as scientific management. The logic of the scientific method and economic calculus gradually pervaded all segments of management in society—industry, commerce, service organisations, government and political organisations. Professional management was governed by the rationality of organisation theory. An organisation should be managed in the context of performance oriented goals (such as productivity, profit, growth) and corresponding strategies of resource management. The behaviour and performance of an entrepreneur or manager should be judged in terms of achievement of stated goals. Means were justified by ends. Thus business enterprise evolved its own ethics and morality which were superimposed on the ethical and moral code governing the wider society. Perhaps the adage 'nothing succeeds like success' can be presented as the golden rule of the moral order of modern organisation. As long as you contributed effectively to the primary goals of your enterprise (and, of course, were protectable by the law of the land), you were on the right side of the new

code of ethics and morality. Further, in a growth-oriented democratic society with a widening liberal individualistic-competitive fervour, you were expected and even encouraged to be ambitious to raise your standard of living in terms of wealth, status, recognition and power. In fact, your organisational and social value would often be judged by the degree of your ambition reflected by your career chart. This 'amoral' code of managerial ethics is bound to remain a force to reckon with as long as the rational scientific approach to social living continues, which is likely to be forever.

MANAGEMENT WITH A HUMAN FACE

However, the limitation of the pure rational scientific view of society have been recognised ever since social scientists and philosophers began to point out the human and social problems of modern industrial civilisation in the early years of the 20th century. The evil effects of *laissez-faire* economics and distribution of wealth and happiness in society led to progressive intervention by the state and the community in allocation of goods, services and surplus wealth. At the same time, the importance of the social and psychological needs of all people involved in an enterprise in its ability to achieve the goals of productivity and growth was recognised. Consequently, the scope of managerial responsibility was widened to include employees, consumers and the society at large with government as the custodian of its survival and progress. Economic enterprise has been going through a process of humanisation over the decades and this process is likely to continue alongside the growing influence of the rational-scientific progress of modern technology. We should take cognisance of the following attributes of the social environment of modern professional management to appreciate the dual nature of social progress—rational scientific and humanistic.

(1) As the essence and fervour of democracy spreads, the various groups of stakeholders in business enterprise—employees, unions, consumers, government, the local community, etc.—become more concerned and vigilant about ethics of managerial behaviour in conventional terms. Unethical behaviour such as corruption, collusion with public and government authorities or favouritism in appointments and promotions for short-term personal or corporate gains would therefore invite dissent and challenge from one or more groups of the stakeholders. In a democracy, you often find it easier and more expeditious to challenge someone else's behaviour on ethical ground than looking into the ethics of your own behaviour.

(2) The nightmarish scenario of growing population and rising socio-economic in-

equalities creates more and more insecurity among people at all levels. Those who are within or proximate to the centres of power and wealth are constantly nagged by the need for keeping up with the Joneses. Those who are peripheral to social goods are nagged by the worry of acquiring minimum resources. This pervasive factor of insecurity has given rise to a fast growing category of 'fixers', subcontractors and freeloaders who not only run a parallel economy but also follow a parallel legal and moral code. Such lumpenisation of society would, in a democracy, provoke the consciousness and voice of people who realise the adverse effects of the parallel society. I believe the degree and impact of this process of lumpenisation and reaction against it should be about the same in business and other enterprise as it is in other areas of society. The new concern about ethics and values in management is an aspect of this process.

(3) The multisplendoured phenomenon of progress in science and technology has yielded unwelcome dividends in the form of pollution and degradation of environment. The alarming implications of this progress for human well-being and survival have generated mounting public concern on this subject. It is well known that a large part of the progress in science yields social benefits to a small proportion of the population. This often widens the social gulf between the rich and the poor. This process creates an increasing need for global consciousness of the human problems of progress. The managerial and entrepreneurial behaviour relating to some vital issues of social existence (e.g. location of hazardous production units, conformity with government regulations on environment) would therefore increasingly fall under public scrutiny. This scrutiny involves the ethical and moral aspects of management. Management would perhaps become more and more a matter of public policy. In this type of emerging environment, the discrete code of ethics and morality characterising managerial conduct under the spell of scientific management would be increasingly questioned and challenged to respond to the needs and moral controls of the larger society. Concurrently, the claim of management to be treated as a distinct profession would also impose compulsions to equate managerial ethics with social ethics in the fashion of the code of ethics governing the legal and medical professions.

(4) The escalating trend of lumpenisation of social behaviour and the pressure of public policy forces on management as mentioned above has created the impression in public mind that business and management represent deterioration in ethics and values. In this sense, one notices within the wider community an erosion of confidence in business and managerial leader-

ship. Such a trend is well-reflected in Tata's lament: "Immense damage has been caused to the image of private business and industry through the depredations, misdeeds and conspicuous expenditure of a few individuals heading large enterprises who, in their pursuit of wealth, profit and self-aggrandisement, have wantonly disregarded the public interests".⁵ The new search for restoration of ethics and values in industry is partly in consequence of this loss of public trust.

(5) A section of intellectuals concerned with professional management holds the view that the self-centred liberal-competitive approach prevalent in Indian business and industry is mainly due to the current western management theories and philosophy. It follows that we should look for an alternative philosophy and approach to check the growing degradation of ethics and values. The rich philosophical and spiritual heritage of India contains a precious wealth of ideas and models of behaviour which can help managers to serve their enterprise and the larger society more effectively by following the principles of selfless dedication to work, love, fearlessness, kindness to every creature, non-violence, emphasis on sharing and giving rather than collecting and hoarding, etc. This approach assumes that the separation of business ethics from the general ethical norms in society should be eliminated. Business ethics should properly reflect the foundation of social and spiritual values. A significant volume of literature has been produced in recent years stressing the relevance of Indian psycho-philosophical tradition for modern management practice. Commendable work has lately been done by management scholars, professionals and preachers of ancient Indian wisdom to interpret scriptural knowledge in terms of its relevance for contemporary managerial and administrative performance.⁶ This trend has also served to enhance and sharpen the concern for ethics and values in management.

RELEVANT CONTENT AND METHOD

The crucial question is not whether we should strive to promote a relevant standard of ethics and values in management but what ethics and values are relevant for promotion. If we re-emphasise the basic social values such as love, kindness, honesty, integrity, uprightness, social responsibility, etc., we would certainly be on the right track. Nobody would deny that these values need to be accepted and honoured. Most of the current discussions on business ethics centre around these basic values. But the question is: how do we regain the lost paradise? A simple solution to this problem is to make ethics and values an integral part of management education. A move in this direction is

already in progress, as mentioned earlier. But any attempt to induce ethics and values through formal education is full of dilemmas. Is it possible to demonstrate clear links between specific norms of ethics and performance of an individual or group? Can you really hope to change the essentially personal value-system of individuals by classroom education? What is the best method of teaching or learning ethics?

Management schools in the west and, to some extent, in India have been muddling through these thorny questions during the last few years. One easy approach to covering ethics and values in management courses is to provide for a separate segment of syllabus on the subject and invite specialists to teach it. It is however, easy to realise that such a discrete treatment of ethics and values may yield extremely doubtful results as managerial ethics and values cannot really be examined independently of managers' actions in their functional role. Hence it is widely believed that issues of ethics and values should be incorporated in each of the segments of learning prescribed in management programmes. In such learning, students can be helped to make choices on ethics by studying the ethical dilemmas faced by managers in concrete situations and examining the implications of each choice.

However, any attempt to administer formal learning in ethics and values is likely to leave some crucial issues unresolved. Learning ethics by an indirect exposure to the ethical dilemmas of others may often leave a learner in serious dilemmas of his own. For, it is extremely hard to draw a clear dividing line between being ethical and being practical. In fact, in a fiercely competitive world of trade and industry, you often find yourself facing the Hobson's choice between ethics and survival of business. Your worldly wisdom may frequently compel you to leave aside your ethics and values to enable your enterprise to perform in a marketing or advertising environment full of lies and innuendos. Why, even people managing schools, hospitals, governmental functions and voluntary service organisations face such compulsions to ensure respectable performance of their enterprises. Such compulsions are dramatically borne out by Rangnekar (1991).⁷ He has offered practical advice to those managers who cannot avoid corruption in spite of their best intentions. The advice contains alluring tips on avoiding unwanted public attention while you enjoy your unethical gains. A recent personal experience is worth recording here in the present context. I was asked to lead a discussion on ethics and values in management at a training programme for a group of senior civil servants across governmental roles from various parts of the country. I began by a quick analysis of the dynamics

of change in ethical and moral norms in human society. I was soon accosted by the vocal section of participants with considerable anger and resistance about my ideas which, they thought, were totally irrelevant to a discussion of ethics in management. On handing over the initiative of discussion to the group, I discovered at once that their minds were forcefully preoccupied with the popular notions about corruption in bureaucracy. They brought out some salient dilemmas they faced in dealing with their superiors or the public and wanted 'an expert in ethics and values' to express an opinion about the ethical acceptability of their actions. In effect, they were looking for moral reassurance from an outsider about the goodness of their behaviour in complex situations. I am sure that the civil servants I met on the occasion, I have mentioned here, were not an exceptional group in terms of the ethical and moral dilemmas they faced.

Teachers dealing with management ethics and values often find themselves in an unenviable position of having to expose contradictions and inconsistencies in their own value systems to their students and colleagues. Also it is not uncommon to find management professionals who advocate and support promotion of ethics and values in management because it is a part of current fashions in management practice or because it helps to cover some other managerial weakness or simply because embracing the mantra of ethics and values brings good business. Formal education in ethics and values is therefore still a controversial matter.

Where does this controversy lead us? As experiments in formal education in business ethics and values are still in the initial stage, we should avoid drawing final conclusions on their viability and effects on management practice. If these efforts can eventually awaken our conscience and guide our behaviour towards less greed, less corruption, more forthrightness, more love, etc., all the social and intellectual investment in ethics and values would be well-spent. We should, however, carefully watch out for the unintended consequences of formal education in ethics. It is not uncommon to notice that the concepts and models of behaviour acquired through education are used by people as a handy mask to show compliance with idealised behaviour without actually having to practise such behaviour. Who knows how often we wear the facade of love, honesty and magnanimity while we concretely indulge in behaviour which is incompatible with the norms of love, honesty, etc. Knowledge at times becomes a debilitating force in society.

HUMAN REALITY

It is much more important to deal with the problem of ethics and values in the context of the human dimension of contemporary

civilisation. The adverse effects of scientific and technological progress on the elementary human needs for comfortable and meaningful survival have been identified and discussed regularly since the advent of modern complex economic enterprise. Social scientists have been trying hard to decipher and diagnose the various aspects of the human side of economic enterprise but their success in resolving the human problems has been quite modest. Meanwhile, the observation that our ability to resolve human problems of the current scientific age has lagged behind technological and scientific progress has assumed the forms of a cliché. We need to go beyond cliché and place the human being in the centre stage of organised enterprise. Economic enterprise should be viewed as a means to an end, of creating comfort and happiness for its people. Human beings should all be viewed ideally as equal regardless of their functional and social differences and inequalities. Hence recognition of the dignity of human beings should be a crucial aspect of enterprise management.

As I have mentioned above, the process of humanisation of enterprise had begun in the early years of this century. Since the beginning of the human relations researches in American industry, a variety of concepts and interventions have been offered to recognise and respond to human needs and aspirations in the process of achieving goals of productivity and profitability. Research efforts in management of human relations in economic enterprise have yielded an alluring variety of approaches to the problem of integrating the human and the techno-economic dimensions of management. These include job enrichment, quality of work life, management by objectives, organisation development, participative management, and human resource development. All these concepts and approaches have contributed significantly to an increasing awareness and recognition of the value of the human needs in production. However, there is still a tendency to treat the human being and his needs as factors of performance. We need to recognise human beings as important in themselves and human happiness as an important organisational objective in its own right within the framework of the norms of productivity. This also implies an increasing need for sharing available resources. The values of abstinence and sharing should be learnt and transmitted in this perspective of contemporary social need. We should realise that we cannot pursue our ambitions effectively for long unless we take the rest along. The recent history of eastern Europe abounds in the message that people who wield authority and power by paying a lip-service to social equality and justice without adequate catering to the basic needs of those over

whom they rule ultimately pay a heavy price for themselves as well as for the societies they manage.

Our concern with management ethics and values therefore has to be in relation with achieving a humane management culture with emphasis on caring, sharing and other behaviour carrying social sensitivity. The main purpose of incorporating ethics and values into management education and training is to constantly expose students and practitioners to the human and social implications of all major events and innovations in science, technology, business and industry and the consequences of attending to or ignoring the human side of these events and innovations. Plenty of scientific, philosophical and fictional literature is produced every year to let us choose salient interpretations on the human aspects of new developments in science and society. A continuing, organised contact with such literature could well serve to generate useful fuel for the process of humanisation. There is no guarantee that such efforts will change the ethical and moral texture of management practice in the foreseeable future. But that is another matter. The more difficult a worthwhile task, the sooner we need to start.

Notes

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- 1 The spectrum of issues regarding incorporation of business ethics in management education are brought out in Dunfee et al (1988) and Gandz et al (1988).
- 2 Xavier Labour Relations Institute, Jamshedpur and Jamnalal Bajaj Institute of Management Studies, Bombay have recently set up chairs in business ethics. Indian Institute of Management, Calcutta and other management schools have, over the years, given increasing importance to the relevance of traditional Indian values and ethics in their educational and research programmes.
- 3 Some typical expressions of such a reaction are contained in Chakraborty (1989, 1991), Gupta (1991), Ghosh (1991).
- 4 Quoted in Gupta (1991), p 32.
- 5 Ibid, p 32.
- 6 See for instance, Chakraborty (1989, 1991); Ranganathananda (1984); Jitaiyananda (1991).
- 7 An interesting analysis of the current issue and dilemmas in business ethics in the western society is provided by Buchholz (1989).

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While there has been, over the years, a perceptible increase in per capita income and expenditure and possibly some decline in the incidence of poverty in India, what still remains is massive and of a kind that is not remedied quickly or smoothly. Even with radical policies, the shifts in income and occupational structures to make a serious dent on it will take more than the rest of this century. In the welter of recent exchanges between the government and the opposition as well as between planners and market advocates on the strategy of growth, these issues, have been largely obfuscated. It is therefore more than ever necessary today to recognise the magnitude of the problem and the inadequacy of the measures adopted so far to deal with it.

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Inter-Industry Variations in Capital Structure

Sidharth Sinha

This study attempts to explain the variations in capital structure across industries in India on the basis of capital structure theories using data from the Reserve Bank of India survey of the finances of public and private limited companies. The results are broadly consistent with theory. The most significant explanatory variables for the capital structure patterns are the measures for asset type and profitability.

ACCORDING to the Reserve Bank of India survey of the finances of public and private limited companies the average debt-equity ratio over the period 1986-87 to 1988-89 was 87.8 per cent for public limited companies and 76.6 per cent for private limited companies. In fact, over the last decade the debt-equity ratio has fluctuated around these levels. However, the average conceals significant inter-industry variation. Among public limited companies the average debt-equity ratio is as low as 30.37 per cent for the tea industry and as high as 159.23 per cent for the cement industry. In the case of private limited companies the variations are even larger with the debt-equity ratio ranging from only 4 per cent for land and estate to 330 per cent for grains and pulses.

Such inter-industry variations call for an explanation in terms of financial or other characteristics. From a policy perspective such an analysis would make meaningful the concept of an industry norm for capital structure for firms in a particular industry. Thus if a particular firm deviates from the industry norm it would be useful to check if the deviation can be explained in terms of the relevant financial characteristics. The study also provides an opportunity to examine the relevance of capital structure theories for explaining inter-industry variations in capital structure in India.

I

Capital Structure Theories

The considerable amount of work on the theory of capital structure since Modigliani Miller's provocative irrelevance propositions has resulted in what Myers (1984) has called the 'static trade off' theory of capital structure. According to this theory a firm's optimal debt ratio is viewed as determined by a trade off of the costs and benefits of borrowing, holding the firm's assets and investment plans constant. The various costs considered in the literature are bankruptcy costs [e.g. Scott 1977], agency costs [Jensen and Meckling 1977] and loss of non-debt tax shields [DeAngelo and Masulis 1980]. These costs become especially relevant in a situation of financial distress and have often been subsumed under 'costs of financial distress'. As against these costs the major benefit of debt financing is the tax shield of interest expense.

Two important empirical implications of the static trade off theory are: (i) Companies

with a larger proportion of tangible assets are likely to have a higher debt ratio. The costs of distress are likely to be higher for firms whose value depends on growth opportunities and intangible assets. In times of financial distress these firms are more likely to forgo profitable investment opportunities. Moreover, if default occurs the liquidation value of their assets is likely to be lower; (ii) companies with high business risk issue less debt since they would be less certain of generating enough income to utilise their debt tax shields.

One important empirical observation inconsistent with the static trade off theory is that the most profitable firms tend to borrow the least. Brealey and Myers (1991) point out that according to the trade off theory high profits should mean more debt servicing capacity and more taxable income to shield resulting in a higher optimal debt ratio. Myers (1984) explains the positive relationship between profitability and the debt-equity ratio using what he calls the 'pecking order' theory. This is based on the assumption that firms have a preference for internal finance. If internal finance is inadequate then they first issue debt, followed by hybrid securities such as convertible bonds and equity as a last resort. Managers may prefer internal financing because it relieves them from the disciplining effects of the securities market. Moreover, as shown by Myers and Majluf (1984) an issue of equity also requires managers to deal with a possible conflict of interest between existing and new shareholders. This is because in a situation of information asymmetry the new issue may be over- or under-priced relative to its true value, known only to the manager. If one accepts the pecking order theory then more profitable firms would end up with lower debt ratios since they would be able to finance their investments through the preferred internal source and do not have to resort to debt financing. The pecking order theory also implies that companies with high growth rates should have a higher debt ratio since their need for external funds would be higher.

While the above discussion is in terms of individual firms it could be extended to the industry level if one assumes inter-industry differences and intra-industry similarities in capital structure. Bradley, Jarrell and Kim (1984) provide some evidence which supports this hypothesis for the US data.

They find that there is more variation in mean leverage ratios across industries than there is in firm leverage ratios within industries. The industry classification accounts for almost 54 per cent of the cross-sectional variance in firm leverage ratios in their

TABLE 1: CHARACTERISTICS OF THE PRIVATE AND PUBLIC LIMITED COMPANIES

Variable	Public	Private
No of units	1,885	1,019
Average debt ratio (per cent)	87.80	76.60
Average net sales (Rs crore)	31.58	2.58
Average gross assets (Rs crore)	41.75	2.51
Fixed assets/gross assets	0.56	0.43
Growth rate for gross assets (per cent)	13.10	12.60
Gross profits/sales (per cent)	8.40	5.53
Gross profits/total net assets (per cent)	8.10	7.27

TABLE 2: INDUSTRYWISE AVERAGE DEBT-EQUITY RATIO (per cent)

Industry	Average Debt-Equity Ratio
Tea	30.37
Tobacco	32.17
Medicines and pharmaceuticals	38.53
Trading	44.67
Paints and varnishes	50.43
Aluminium	56.40
Electrical machinery, appliances, etc	60.93
Rubber and rubber products	65.07
Jute textiles	72.50
Construction	73.40
Motor vehicles	74.73
Sugar	76.37
Machinery other than transport and electrical	79.50
Metal products	92.87
Foundries and engineering workshops	93.80
Basic industrial chemicals	96.27
Silk textiles	103.70
Paper and paper products	104.20
Cotton textiles	109.27
Electricity generation and supply	111.93
Cement	159.23
Average for all industries	87.8

Note: (a) Data pertains to the period 1986-87 to 1988-89 for a sample of 1,885 non-government non-financial public limited companies.

(b) Debt comprises of (1) all borrowings from government and semi-government financial institutions other than banks and other institutional agencies, (2) borrowings from banks against town debentures and other mortgages, and (3) other borrowings against own debentures, other mortgages, deferred payment liabilities and public and other deposits. Equity comprises of paid-up capital (ordinary, preference, deferred, etc. shares), forfeited shares and all reserves.

sample.

This study examines the inter-industry variations in capital structure in India with a view to explaining the differences across industries in terms of the variables implied by the static trade off theory and the pecking order theory. If the predictions of the theory hold at the industry level then they may also be expected to hold at the firm level. A similar study could then be conducted using firm level data. The study implicitly assumes inter-industry differences and intra-industry similarities in capital structure.

II

Empirical Proxies

CAPITAL STRUCTURE VARIABLES

The measure of financial leverage used in this study is the one used by the Reserve Bank of India in its survey of finances of public and private limited companies. This is the debt-equity ratio where debt comprises of (1) all borrowings from government and semi-government financial institutions other than banks and other institutional agencies, (2) borrowings from banks against own debentures and other mortgages, and (3) other borrowings against own debentures, other mortgages, deferred payment liabilities and public and other deposits. This measure of debt, therefore, effectively includes only long-term debt. Equity comprises of paid-up capital (ordinary, preference, deferred shares, etc), forfeited shares and all reserves. This measure of the debt-equity ratio is, therefore, based on book values and is subject to the limitations of using book values. Most other studies use book value of debt and market value of equity. However, the RBI data on which this study is based does not provide market value of equity for the various industries.

DETERMINANTS

The following variables are used in order to explain the inter-industry variations in capital structure:

- Asset type:** This is measured by the proportion of gross fixed assets to total gross assets. The theory predicts that the larger this proportion the higher should be the debt-equity ratio since the collateral value of assets is likely to be higher for these firms resulting in lower costs of financial distress.
- Profitability:** This is measured by the ratio of operating income, defined as gross profits plus depreciation, to total gross assets and by the ratio of operating income to sales. The first measure can be interpreted as return on investment and the second as margin on sales. Since it is not clear, a priori, whether operating income should be scaled by gross assets or sales both measures are used. The static trade off theory would

predict a positive relationship since higher profitability implies higher debt capacity. However, the pecking order theory predicts a negative relationship since higher profitability implies a greater reliance on internal funds and a correspondingly lower use of debt.

- Risk:** This is measured by the standard deviation of the growth rate in gross profits. The static trade off theory predicts a negative relationship with the debt-equity ratio.
- Growth:** This is measured by the growth rate in gross assets. While the static trade off theory makes no definite prediction, according to the pecking order theory there should be a positive relationship since a higher growth implies a higher demand for funds and, *ceteris paribus*, a greater reliance on external financing through the preferred source of debt.
- Size:** The average size of firms in the industry is measured by dividing the gross assets by the number of units included in the industry sample. The natural log of this variable is included to take into account any possible size effect.

All variables except risk are the averages over the three years 1986-87 to 1988-89. Risk is measured by the standard deviation calculated over the eight-year period 1981-82 to 1988-89. The analysis is carried out separately for public limited and private limited companies in order to take into account possible differences in ownership structures on capital structure patterns.

III

Description of Data

All the data is obtained from various Reserve Bank of India bulletins. The data

for the period 1986-87 to 1988-89 is based on 1,885 non-government non-financial public limited companies and 1,019 private limited companies. The sample of public limited companies account for approximately 57 per cent of all non-government non-financial public limited companies in terms

TABLE 4: RESULTS OF REGRESSION ANALYSIS

Independent Variable	Regression 1	Regression 2	Regression 3
Constant	74.65 (1.974)	0.67 (0.014)	48.81 (1.49)
Fixed assets	148.03 (3.844)	214.65 (3.563)	114.99 (3.69)
Profit/assets	-894.70 (-4.260)		-844.79 (-4.08)
Profit/sales		-375.26 (-1.262)	
Growth	3.83 (2.973)	1.97 (1.131)	3.94 (3.08)
Size	-8.16 (-1.215)	-3.09 (-0.317)	
Risk	-0.098 (-0.692)	-0.07 (-0.328)	
Adjusted R ²	0.709	0.399	0.707

Notes: Industrywise data based on a sample of 1,885 non government non-financial public limited companies.

The independent variable is the debt ratio. Regression coefficients with t-values are given in parentheses. Data for running the regression was available for only 20 industries.

Variable definitions:

All variables except risk are the averages over 1986-87 to 1988-89. Risk is measured over the period 1980-81 to 1988-89.

(a) Debt ratio = Debt/equity.

(b) Fixed assets = Gross fixed assets/total gross assets.

(c) Profits/assets = Operating income/total gross assets.

(d) Profits/sales = Operating income/sales.

(e) Growth = Growth rate of total gross assets.

(f) Size = Log (total gross assets/number of units).

(g) Risk = Standard deviation of growth rate of gross profits.

TABLE 3: CORRELATION COEFFICIENTS

	Debt Ratio	Fixed Assets	Profit/Assets	Profit/Sales	Growth	Risk	Size
Debt ratio	1.00	0.67*	-0.65*	0.18	0.009	0.29	0.33
Fixed assets		1.00	-0.46**	0.55	-0.29	0.52**	0.61**
Profit/assets			1.00	0.11	0.44**	-0.39***	-0.36
Profit/sales				1.00	-0.13	0.15	0.44**
Growth					1.00	-0.32	-0.20
Risk						1.00	0.38***
Size							1.00

Notes: Industrywise data for 20 industries based on a sample of 1,885 non-government non-financial public limited companies.

Variable definitions:

All variables except risk are the averages over 1986-87 to 1988-89. Risk is measured over the period 1980-81 to 1988-89.

(a) Debt ratio = Debt/equity

(b) Fixed assets = Gross fixed assets/total gross assets.

(c) Profits/assets = Operating income/total gross assets.

(d) Profits/sales = Operating income/sales.

(e) Growth = Growth rate of total gross assets.

(f) Size = Log (total gross assets/number of units).

(g) Risk = Standard deviation of growth rate of gross profits.

* Significant at 1 per cent

** Significant at 5 per cent

*** Significant at 10 per cent

TABLE 5: INDUSTRYWISE AVERAGE DEBT-EQUITY RATIO

Industry	Average Debt-Equity Ratio (Per Cent)
Land and estate	4.0
Trading	19.7
Rubber and rubber products	20.7
Construction	25.0
Road transport	25.1
Basic industrial chemicals	32.6
Hotels, restaurants and eating houses	51.6
Foundries and engineering workshops	57.1
Ferrous/non-ferrous metal products	58.9
Shipping	70.3
Machinery other than transport and electrical	70.9
Printing and publishing	76.0
Electrical machinery, etc	88.4
Tea	93.4
Medicines and pharmaceutical preparations	111.0
Glass and glassware	114.5
Motor vehicles	116.0
Cotton textiles	123.8
Edible vegetable and hydrogenated oils	184.3
Paper and paper products	209.7
Silk and rayon textiles	267.2
Grains and pulses	330.8
Average for all industries	76.6

Notes: (a) The data pertains to the period 1986-87 to 1988-89 for a sample of 1,019 non-government, non-financial private limited companies.

(b) Debt comprises of (1) all borrowings from government and semi-government financial institutions other than banks and other institutional agencies, (2) borrowings from banks against own debentures and other mortgages, and (3) other borrowings against own debentures, other mortgages, deferred payment liabilities and public and other deposits. Equity comprises of paid-up capital (ordinary, preference, deferred shares, etc), forfeited shares and all reserves.

of paid-up capital as at the end of March 1989. The sample of private limited companies account for 6.4 per cent of the total paid-up capital of all non-government non-financial private limited companies in terms of paid-up capital. In the case of the risk measure, where eight-year data is used, the coverage varies across years. This may reduce the reliability of this measure.

The RBI classifies the public limited companies into 16 industries. One industry, shipping, is excluded from the study because the data on debt-equity ratio is not available. Two industries are further subdivided into sub-industries—five in the case of engineering and four in the case of chemicals. We use the data for the sub-industries and drop the data for the engineering and chemicals group as a whole. In the case of private limited companies the classification is into 18 industries with similar sub-classification for engineering and chemicals. Once again the sub-classification is used.

The average debt equity ratio over the period 1986-87 to 1988-89 is 87.8 per cent for the public limited companies and 76.6 per cent for the private limited companies. Tables 2 and 5 give the industry/industry groupwise average debt ratios for public and private limited companies arranged in ascending order. For the 14 industries common to both the public and private limited companies the Spearman rank correlation coefficient is 0.4 and not significant at conventional levels. This indicates that the pattern of debt-equity ratio is likely to be different across the two sets of companies. This will be examined further when the factors determining the inter-industry variations in capital structure are analysed. Table 1 gives some of the other characteristics of the two samples. The most noticeable difference between the sets of companies is in terms of their size. The public limited com-

panies are on average 15 to 20 times larger than the private limited companies. Thus the difference in the capital structure patterns of private and public limited companies may be due to not only differences in ownership patterns but also because of differences in size.

IV Results

PUBLIC LIMITED COMPANIES

The correlation coefficients between the average debt ratio and the explanatory variables is given in Table 3. The debt ratio has a correlation coefficient of 0.67 (significant at 1 per cent) with the proportion of fixed assets to total assets and a correlation coefficient of -0.65 (significant at the 1 per cent level) with the average operating income to gross assets. The corresponding correlation with average operating income to sales is positive and insignificant. The other correlation coefficients between the debt ratio and the explanatory variables are not significant at the conventional levels. Given the relatively small number of observations the Spearman rank correlation coefficients are also examined. These are similar to the correlation coefficients reported in Table 3.

The results for the multiple regression are given in Table 4. Because of the significantly different correlation between the average debt ratio and the two measures of profitability we run two regressions, one for each measure of profitability. In the regression using the profitability measure adjusted for gross assets the independent variables explain about 71 per cent of the variation in the debt ratio. The proportion of fixed assets has a positive coefficient ($t=3.84$) and the profitability ratio has a negative coefficient ($t=-4.26$). These are consistent with the static trade off and the pecking order theory respectively. The only other significant coefficient is for the growth rate in assets which is positive ($t=2.97$). Positive coefficients for the growth variable, using a different methodology, has also been reported by Titman and Wessels (1988) for the US using firm level data and are consistent with the pecking order theory. The coefficients on size and risk are negative but not significant. The negative coefficient on risk is consistent with the assertion that higher business risk should imply a lower debt ratio because of higher probability of financial distress. The negative coefficient on size indicates that industries with larger average size of firms tend to have lower debt ratios. This is again consistent with the results of the Titman and Wessels (1988) study. When the regression coefficients are re-estimated without including the two variables which do not have significant coefficients the adjusted R^2 is still 71 per cent. This indicates that these two variables do not add to the explanatory power of the model.

TABLE 6: CORRELATION COEFFICIENTS

	Debt Ratio	Fixed Assets	Profit/Assets	Profit/Sales	Growth	Risk	Size
Debt ratio	1.00	0.31	-0.12	-0.46**	-0.05	0.21	-0.29
Fixed assets		1.00	0.28**	0.39***	-0.05	0.21	-0.34
Profit/assets			1.00	0.46**	0.22	-0.15	-0.50**
Profit/sales				1.00	-0.09	0.05	-0.17
Growth					1.00	-0.31	0.01
Risk						1.00	0.09
Size							1.00

Notes: Industrywise data for 20 industries based on a sample of 1,019 non-government non-financial private limited companies.

Variable definitions:

All variables except risk are the averages over 1986-87 to 1988-89. Risk is measured over the period 1980-81 to 1988-89.

(a) Debt ratio = Debt/equity

(b) Fixed assets = Gross fixed assets/total gross assets.

(c) Profit/assets = Operating income/total gross assets.

(d) Profit/sales = Operating income/sales.

(e) Growth = Growth rate of total gross assets.

(f) Size = Log (total gross assets/number of units).

(g) Risk = Standard deviation of growth rate of gross profits.

* Significant at 1 per cent.

** Significant at 5 per cent.

*** Significant at 10 per cent.

TABLE 7: RESULTS OF REGRESSION ANALYSIS

Independent Variable	Regression 1	Regression 2	Regression 3
Constant	474.48 (1.620)	109.08 (0.504)	81.59 (1.662)
Fixed asset	139.03 (0.946)	306.32 (2.242)	321.75 (3.041)
Profit/assets	-1105.09 (-1.252)		
Profit/Sales		-1327.59 (-3.031)	-1336.50 (-3.625)
Growth	0.05 (0.010)	-2.39 (-0.579)	
Size	-60.26 (-1.456)	0.28 (0.008)	
Risk	0.134 (0.515)	0.09 (0.441)	
Adjusted R ²	0.000	0.327	0.429

Notes: Industrywise data based on a sample of 1,019 non-government non-financial private limited companies. The dependent variable is the debt ratio. Regression coefficients with t-values are given in parentheses. Data for running the regression was available for only 20 industries.

Variable definitions:

All variables except risk are the averages over 1986-87 to 1988-89. Risk is measured over the period 1980-81 to 1988-89.

(a) Debt ratio = Debt/equity.

(b) Fixed assets = Gross fixed assets/total gross assets.

(c) Profit/assets = Operating income/total gross assets.

(d) Profits/sales = Operating income/sales.

(e) Growth = Growth rate of total gross assets.

(f) Size = Log (total gross assets/number of units).

(g) Risk = Standard deviation of growth rate of gross profits.

In the regression using the profitability measure adjusted for sales the R² drops to 40 per cent and only the coefficient for the proportion of fixed assets is significant.

PRIVATE LIMITED COMPANIES

The correlation coefficients between the average debt ratio and the explanatory variables is given in Table 6. In this case the only significant correlation coefficient is the negative coefficient for the profit variable scaled by sales. The profit variable scaled by total assets has a negative coefficient which is not significant. This is in contrast to what was observed in the case public limited companies where the profit variable scaled by assets had a significant correlation coefficient. The coefficient for the proportion of fixed assets is positive but not significant.

The regression results are presented in Table 7 and are critically determined by the measure of profitability used. When the profit variable is scaled by assets the fit is extremely poor and none of the coefficients are significant. However, when the profitability variable is scaled by sales the explanatory variable explain about 33 per cent of the variation in the debt ratio. The coefficient for the profitability variable is negative

($t=3.03$) and for the proportion of fixed assets positive ($t=2.24$). The coefficient for the growth variable is negative and for the risk and size variable positive and in each case not significant. When the regression is re-estimated without these variables the adjusted R² increases marginally to 43 per cent.

V

Conclusions

The inter-industry variations in capital structure for public limited companies can be explained by the existing theories of capital structure. The higher the proportion of fixed assets to total assets and the higher the growth rate of assets the higher is the industry debt-equity ratio. The lower the ratio of operating income to gross assets the higher is the debt ratio. The average size of firms in the industry in terms of gross assets and the business risk as measured by the standard deviation of the growth in gross profits are negatively related to the debt-equity ratio but their coefficients are not significant. However, in the case of private limited companies only when the profitability variable is scaled by sales does the model have some explanatory power. This seems to indicate that whereas in the case of public limited companies the debt-equity ratio is influenced by the return on assets in the case of private limited companies it is influenced by the margin on sales. There

does not appear to be any a priori reason why this should be so. Further work based on either firm level data or a finer classification of the industries may provide stronger and more stable results.

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WOMAN AND WASTELAND DEVELOPMENT IN INDIA

Edited by ANDREA M SINGH and NEERA BURRA

The vicious cycle of poverty, environmental degradation and rural livelihoods has received increasing attention in recent years. This realisation has been accompanied by a recognition of the central role played by women in these processes. In this framework, the regeneration of wastelands has attracted the attention of the government and of voluntary groups in India and has resulted in numerous initiatives with the direct involvement of women. This volume takes stock of the progress made so far, the issues that have arisen in the process and the policy implications of these experiences.

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India's Garment Exports

Somnath Chatterjee

Rakesh Mohan

High input and manufacturing costs have made it virtually impossible to supply fabrics to exporters at rates that would enable our manufacturers to compete effectively in the international market. The size and internal efficiency of the synthetic fibre producers will determine the substantial growth of India's garment export industry in the future. Therefore, while the long-term policy should be aimed at strengthening and diversifying our domestic textile base, the short-term solution will have to centre around facilitating the import of fabric.

This paper analyses some of the relevant aspects of India's garment exports which include an analysis of market shares, product composition, production structure and the international trade regime.

Introduction

THE performance of India's garment export sector epitomises how an efficiently managed labour-intensive sector can be transformed into a prolific foreign exchange earner. During the second half of the 1980s export revenues from garment exports have increased in a manner which is unprecedented in India's trade record. What has been particularly beneficial to the Indian economy is the fact that these exports have taken place with very little import content. Today garment exports account for about 15 per cent of the country's export earnings and has become the single largest net foreign exchange earner. The garment export sector has centred around an extensive subcontracting system which made use of powerloom fabrics and second-hand machinery. Hard currency areas like the US and the EEC have been the principal markets for India's apparel exports. The clothing industry in the developed western nations is characterised by a large degree of protectionism which has been manifested in the form of high tariffs and quantitative restrictions incorporated in the Multi Fibre Arrangement (MFA). Although these trade barriers have acted as a major stumbling block India has been able to reap the maximum benefit from this constrained scenario by fully utilising the quotas that have been made available. Our record in clothing exports no doubt surpasses that of any other manufactured item we have exported so far. At the same time, it would be complacent on our part to presume that our performance is without blemish. A disquieting feature of our record in garment exports is the lack of an adequate fabric base which has stymied our efforts to attain the requisite degree of diversity in terms of both product composition and markets. A brief outline of the four sections in this study is described below:

Section I focuses on India's overall performance in the garment export sector. Besides an analysis of the general uptrend in growth, a comparative assessment has been made *vis-a-vis* the leading garment exporters in the international market. Sec-

tion II delves into the production pattern in the Indian garment industry and highlights its dichotomous nature insofar as manufacturing for the domestic market and overseas markets are concerned. Section III describes the regulatory regime governing the garment export industry. International trade in garments has to contend with severe protectionist sentiments on the part of major importing nations and the rules of the game have gone much beyond what is ordinarily laid out in GATT provisions. With the Multi Fibre Arrangement (MFA) in operation, international trade in garments is largely governed by the international allocation of quotas. Section IV examines the trends in the value of garment exports as well as movements in unit values expressed in terms of both dollars and rupees. The paper concludes with some policy recommendations which may facilitate our attainment of the status of a global player of significance in garment exports.

I

Indian Garment Exports

TRENDS

In 1991-92, India's exports of readymade garments are estimated to have reached Rs 6,282 crore which is almost double the value obtained in 1989-90 when garment exports amounted only to Rs 3,472 crore. If one were to exclude exports of gems and jewellery where the import content is very high and value added is very low, readymade garments are today India's number one manufactured export item. India's garment exports were rising at an annual compounded rate of 22 per cent throughout the 1980s. Over the five-year period from 1985-86 to 1989-90 garment exports have been growing at an average annual rate of 32 per cent. Prior to 1960-61 there was virtually no export of readymade garments from India and in that year they were a modest Rs 0.85 crore. In 1970-71 the value of garment exports was about Rs 30 crore and constituted 2 per cent of total exports and 3.8 per cent of manufactured exports.¹ But

since then exports of readymade garments have recorded a phenomenal increase, more so in the 1980s. They reached Rs 200 crore in 1975-76, Rs 565 crore in 1980-81 and Rs 1,106 crore in 1985-86. In 1990-91, the share of garments in India's manufactured exports went up to more than 17 per cent and its share in total exports was 12.5 per cent (Table 1.)

Although garment exports have been rising consistently over the entire period two significant phases of growth can be discerned. The first major burst of growth was witnessed during 1970-71 to 1975-76. During this phase the share of clothing in manufactured exports rose from 3.8 per cent in 1970-71 to 11.1 per cent in 1975-76 and its corresponding share in total exports rose from 2 per cent to 5 per cent. The boom in clothing exports at this time was associated with the enormous increase in demand for Indian handloom garments and other indigenous fabrics in the US and Europe.

The second garment export boom commenced from 1983-84 onwards and seems to have sustained itself. Latest figures indicate that within a span of six months, i.e., January-June 1992, the export figure has reached a level of Rs 4,400 crore which shows a positive variation of 21 per cent over the corresponding period last year. Going by the current explosive trend, garment exports should cross the 1992 target of Rs 7,400 crore (US dollars 2.7 billion). A sustained upsurge of such proportions is almost unprecedented when viewed in the context of India's manufactured exports.

This sharp uptrend in garment exports, can be attributed to various factors. The major markets for Indian garments continue to be the US and the EEC. Exports to both these markets have shot up considerably. What may have facilitated this is a renewed consumer preference for cotton garments in the developed countries. This seems to have revived the world trade in cotton garments. Moreover, there was a world-wide shortage of cotton after 1986 which inflated the price of cotton garments traded in the international market.

Cotton is the fabric base for more than 65 per cent of the garments exported from India, and so we have obviously capitalised on these circumstances. Secondly, the availability of more levels in bilateral agreements under the MFA² have given a boost to exports in restrained countries. In 1987 the US increased its base level quotas for India by 17 per cent and again by another 18 per cent in 1988. The EEC increased its quota allocations to India by 15 per cent in 1987 and by 28 per cent in 1989. And finally, Indian garment exports have evidently benefited from some of the government measures announced in recent years to help the export sector, which include *inter-alia*, duty drawbacks, advance licensing and the provision of cash compensatory support. (The last provision has now been withdrawn).

A more realistic picture emerges when one analyses the value indices of Indian garment exports at constant prices. This adjusts for fluctuating foreign exchange rates and general rise in world prices. The currency that seems most appropriate for evening out exchange rate fluctuations is US dollar as the US is the country which has absorbed the largest share of India's garment exports. Table 2 shows Indian garment exports expressed in US dollars, first in current prices, and then in constant prices, deflated by a manufacturing unit value index. A fairly consistent upward trend in the value indices of garment exports is apparent. The only diversion from this upward trend was a marginal decline from 1977 to 1978 and a more pronounced decline in 1982 and 1983. But these shortfalls were of a transitory nature and the result of certain exogenous factors.

In 1977, the volume of demand for Indian garments was constrained by some alterations in the MFA whereby the exemption previously granted to Indian handloom products was withdrawn. As mentioned earlier, Indian garments made of handloom fabrics had become popular in European and American markets during the first half of the 1970s. The demand for these items was able to flourish as there were no stringent quotas restraining their export. The MFA had initially exempted Indian handloom fabrics from the quota restrictions facing millmade garments in Europe and the US. But the subsequent modifications in the MFA in 1977 discontinued this. Although handloom products still enjoy some preferential treatment under the MFA, the terms and conditions are not as liberal as they were during the early 1970s.

In 1982 and 1983 the value of Indian garment exports even at current prices had declined. This implied a substantial reduction in the value indices at constant prices for those years. But this decline was large-

ly a reflection of the recession in world demand for garments. This is corroborated by Table 3 which shows that world garment imports stagnated between 1980 and 1983. Consequently world exports of clothing also stagnated during this period as is indicated in Table 4. Even the value

of garment exports from Hong Kong, the world's number one exporter, registered a decline. However, the recession was short-lived and Indian garment exports gained considerable momentum from 1984 onwards.

We have seen that the growth in Indian

TABLE 1: EXPORTS OF CLOTHING, 1960-61 TO 1990-91

(Values in current prices in rupees crore)

Sl No	Item	1960-61	1965-66	1970-71	1975-76	1980-81	1985-86	1990-91
1	Clothing exports value	0	6	30	199	565	1,106	4,593
2	All manufactured exports value	286	386	791	1,800	3,927	6,295	26,600
	Share of clothing	0.3	1.6	3.8	11.1	14.4	17.6	17.3
3	All exports value	632	806	1,535	4,036	6,710	10,847	32,553
	Share of clothing	0.1	0.7	2.0	5.0	8.4	10.2	14.1

- Notes: 1 Manufactured exports have been declined as SITC (5+6+7+8-68), for the years 1960-61 to 1985-86.
 2 From 1987 onwards manufactured exports have been defined as total exports - (agriculture and allied products + plantations + ores and minerals).
 3 Indian Trade Classification, Revision-2 (ITC-Rev 2) which was based on Standard International Trade Classification Revision-2 (SITC-Rev 2), was in vogue from April 1977 to March 1987. A new system of commodity classification known as Indian Trade Classification (based on harmonised commodity description and coding system), in short, ITC (HS), has been adopted from April 1987.
 Sources: 1 *Monthly Statistics of the Foreign Trade of India*, DGCIS, Calcutta, various issues.
 2 *Economic Survey*, various issues.

TABLE 2: VALUE OF INDIAN GARMENT EXPORTS (1970 TO 1991)

	1970	1975	1976	1977	1978	1979	1980	1981	1982
Value of exports (current US \$ m)	36	195	334	340	410	536	554	751	670
Value indices of exports (current US \$) (base 1980=100)	6	35	60	61	74	96	100	135	120
Manufacturing export unit value index (base 1980=100)	35	63	64	70	81	91	100	100	99
Value indices of exports (constant US \$)	17	53	90	83	88	101	95	131	119
	1983	1984	1985	1986	1987	1988	1989	1990	1991
Value of exports (current US \$ m)	634	748	863	1,049	1,429	1,544	1,768	2,451	2,387
Value indices of exports (current US \$) (base 1980=100)	114	135	155	189	257	278	319	442	430
Manufacturing export unit value index (base 1980=100)	95	95	112	123	132	131	139	142	148
Value indices of exports (constant US \$)	121	142	139	153	195	212	230	312	291

- Sources: 1 *Handbook of Export Statistics*, Apparel Export Promotion Council.
 2 *UN Yearbook of International Trade Statistics*.
 3 *International Financial Statistics*, IMF.
 4 *Commodity Price Forecasts—August 1992*, World Bank.

TABLE 3: TRENDS IN WORLD GARMENT IMPORTS (1980 TO 1985)

(Values in current US \$ m cif)

	1980	(Per Cent)	1981	1982	1983	1984	1985	1986	1987	(Per Cent)
EEC	20,485	51.7	18,151	17,202	16,525	16,976	17,735	25,779	34,550	44.5
USA	6,945	17.5	8,120	8,793	10,421	14,604	16,209	18,704	22,133	28.5
Japan	1,530	3.9	1,802	1,832	1,501	1,949	1,995	2,853	4,649	6.0
Hong Kong	693	1.7	929	1,060	1,166	1,484	1,697	2,528	3,338	4.3
World	39,649	100.0	39,257	39,126	38,845	44,049	45,392	60,629	77,683	100.0

Source: The World Bank Industry and Energy Department, PPR, 'Garments: Global Subsector Study', December 1989.

TABLE 4: WORLD CLOTHING EXPORTS

Exporters	1970		1972		1974		1976		1978		1980		1982		1984		1986		1988	
	Value	Share	Value	Share	Value	Share	Value	Share	Value	Share	Value	Share	Value	Share	Value	Share	Value	Share	Value	Share
World	6,440	100.00	9,785	100.00	14,924	100.00	20,750	100.00	28,340	100.00	39,930	100.00	39,833	100.00	45,805	100.00	61,829	100.00	84,133	100.00
Developed market economies	4,085	63.40	5,804	59.30	8,151	54.60	10,260	49.40	14,444	51.00	20,436	51.20	18,092	45.40	18,700	40.80	26,700	43.20	33,957	40.40
Developing market economies	1,362	21.10	2,609	26.70	4,067	27.30	7,947	38.30	10,425	36.80	14,598	36.60	16,661	41.80	21,836	47.70	27,785	44.90	46,998	55.90
Centrally planned economies	993	15.40	1,373	14.00	2,032	13.60	2,543	12.30	3,471	12.20	4,896	12.30	5,080	12.80	5,269	11.50	7,345	11.90	3,177	3.80
EEC	2,665	41.40	3,997	40.80	5,609	37.60	7,254	35.00	10,564	37.30	14,584	36.30	12,666	31.80	13,092	28.60	22,006	35.60	28,217	33.50
EFTA	446	6.90	637	6.50	1,076	7.20	1,214	5.90	1,696	6.00	2,725	6.80	—	—	2,711	5.90	2,255	3.60	2,501	3.00
USA	227	3.50	249	2.50	418	2.80	561	2.70	719	2.50	1,219	3.10	987	2.50	877	1.90	879	1.40	1,557	1.90
Hong Kong	698	10.80	1,078	11.00	1,673	11.2	2,871	13.80	3,450	12.20	4,976	12.50	5,241	13.20	6,765	14.80	8,398	13.60	—	—
South Korea	213	3.30	440	4.50	947	6.30	1,845	8.90	2,523	8.90	2,949	7.40	3,774	9.50	4,501	9.80	5,483	8.90	8,853	10.50
India	36	0.60	67	0.76	163	1.10	334	1.60	410	1.40	590	1.50	670	1.70	748	1.60	1,049	1.70	1,544	1.80
India's share of developing market economies	2.60		2.60		4.00		4.00		3.90		4.00		4.00		3.40		3.80		3.30	

Note : Values in US \$ m fob and shares as a percentage of world clothing exports.

Source: UN Yearbook of International Trade Statistics, Volume I, various issues.

garment exports over the last twenty-five years has been of a high order. But when viewed in the context of world trade in garments it appears that the growth has not been high enough. Despite high growth rates Indian garments still constitute a small fraction of world trade in garments. Garment exports from India were only 0.6 per cent of the value of world exports of clothing in 1970. This share rose significantly to 1.6 per cent in 1976 but stagnated thereafter. In 1988 India's garment exports reached \$ 1,544 million and acquired a share of 1.8 per cent of world exports. Latest reports suggest that at \$ 2,402 million in 1991 Indian garment exports are about 2 per cent of world exports, but information is sketchy.¹

Table 4 shows that during the 18-year period from 1970 to 1988 the share of developing countries in world exports of clothing has more than doubled from 21 per cent to 56 per cent. And from 1984 onwards the market share of developing countries has exceeded that of the developed countries. However, India's share in developing market economy exports has not shown much improvement. Starting from a share of 2.6 per cent in 1970 it improved to 4.2 per cent in 1976 after which it has witnessed a declining trend. The spectacular performance of other developing countries like Hong Kong, South Korea and Taiwan have to an extent overshadowed India's own good performance.

In spite of the increasing overall share of the developing countries the world rankings in terms of value of garment exports have not been subjected to any major upheavals over the last decade or so (Table 5). Hong Kong and Italy have occupied the top position for most of the last decade. The table indicates that over the last decade, the share of some developed country exporters like the US, Japan

and the Netherlands has declined. The top ten garment exporters accounted for nearly 65 per cent of global apparel exports in 1987. What is interesting is the emergence of China as one of the world's major garment exporters (Table 6). This has important implications for Indian garment exports as China has been making inroads into some of India's major markets. During the second-half of the 1980s Chinese garments succeeded in capturing an increasing share of the US market while India's share has remained more or less constant (Table 7). Other Asian nations like Malaysia, Thailand, Indonesia and Bangladesh have also emerged in recent years as forces to contend with

in the garment export sector.

Although India has to an extent participated in the growth in world garment trade since the early 1970s, its own growth has not matched that of the east Asian countries like Hong Kong, South Korea and China. One factor that has had an important bearing on India's garment export sector is the limited fabric base. Indian exports are predominantly of cotton fabric, whereas the bulk of world trade in garments is in man-made fibres.⁴ Another impediment was in the form of the limitations imposed by low quota allocations to India. In terms of annual growth rates the performance of Indian garment exports was impressive in the 1960s and early 70s.

TABLE 6: CLOTHING EXPORTS OF CHINA IN JANUARY-DECEMBER, 1984 AND 1990

Region/Country	1984		1990	
	Value	Share	Value	Share
World	2,526	100.0	9,669	100.0
Developed economies	1,389	55.0	3,793	39.2
Developing economies	962	38.1	5,206	53.8
Eastern Europe and USSR	111	4.4	670	6.9
USA	617	24.4	1,092	11.3
EEC	269	10.6	906	9.4
Japan	297	11.8	1,361	14.1
Hong Kong	803	31.8	4,685	48.5

Note : Values in US \$ m fob and percentage shares of major destinations.

Source: UN Commodity Trade Statistics, Statistical Series D 1990 Rev 2.

TABLE 7: CLOTHING IMPORTS OF USA IN JANUARY-DECEMBER, 1984 AND 1990

Region/Country	1984		1990	
	Value	Share	Value	Share
World	14,598	100.0	26,977	100.0
EEC	1,063	7.3	1,847	6.8
Hong Kong	3,200	21.9	4,225	15.7
South Korea	2,447	16.8	3,409	12.6
China	1,000	6.9	3,699	13.7
India	326	2.2	709	2.6

Note : Values in US \$ m fob and percentage shares of major destinations.

Source: UN Commodity Trade Statistics, Statistical Series D 1990 Rev 2.

TABLE 5: WORLD'S MAJOR GARMENT EXPORTERS AND THEIR RESPECTIVE RANKINGS

Rank	1976		1980		1982		1984		1986	
	Country	Per Cent	Country	Per Cent	Country	Per Cent	Country	Per Cent	Country	Per Cent
1	Hong Kong	17.5	Hong Kong	12.5	Hong Kong	13.1	Hong Kong	14.8	Hong Kong	13.5
2	Italy	12.7	Italy	11.4	Italy	10.8	Italy	10.5	Italy	12.2
3	S Korea	11.2	S Korea	7.3	S Korea	9.5	S Korea	9.8	S Korea	8.9
4	W Germany	8.5	W Germany	7.2	Taiwan	7.5	Taiwan	8.8	Taiwan	7.3
5	France	7.4	Taiwan	6.4	W Germany	6.1	W Germany	5.7	W Germany	6.7
6	Taiwan	5.5	France	5.7	France	4.4	China	5.5	China	4.8
7	UK	4.4	UK	4.7	UK	3.6	France	3.8	France	4.1
8	Belg Lux	4.1	USA	3.1	USA	2.5	UK	2.9	UK	2.9
9	Netherlands	3.2	Belg Lux	2.5	Belg Lux	1.9	USA	1.9	Portugal	2.4
10	USA	3.0	Netherlands	2.2	Netherlands	1.7	Portugal	1.8	Turkey	2.0
	Total	77.5	Total	63.0		61.1		65.5		64.8
Memo Item:										
	India (12)		India (10)	1.5	India (11)	1.7	India (13)	1.7	India (11)	1.7

Note : The figures in brackets at the bottom of each column indicate India's rank in terms of value of garment exports amongst the world's garment exporting countries.

Sources: Compiled from UN Yearbook of International Trade Statistics, various issues. Garment export figures for Taiwan have been taken from a World Bank working paper, 'Garments: Global Subsector Study'.

But its corresponding share in world clothing exports remained low and as a result India never attained the status of a leading garment exporter. Quotas are fixed on the basis of earlier years' exports. All said and done, India could not make full use of the opportunities available in the more liberalised trade environment that prevailed in the late 60s and early 70s. Today, it has to operate in a far more protectionist environment where the channels for diverting trade are being increasingly limited.

DESTINATIONS OF INDIAN GARMENT EXPORTS

India's garment exports have catered to the global market with different economies acquiring prominence at different points of time. In 1970 the erstwhile Soviet Union was India's major export market accounting for more than 50 per cent of the share of India's garment exports (Table 8a). Over the decade of the 70s the share of the developed countries increased rapidly while that of the developing coun-

tries and the Soviet Union fell considerably.³ The large share of clothing exports to the USSR in 1970 was accounted for by the huge exports of woollen cardigans to that country. These exports were maintained in volume terms during subsequent years but their share in total garment exports fell. It is important to note that exports to the Soviet Union were negotiated through bilateral agreements involving rupee transactions. The boom in garment exports to the US and Europe in the mid-70s is explained by the popular demand for woven outer garments made of handloom fabrics.

In terms of market shares a more consistent picture has emerged in the 1980s. The regional breakdown of exports from 1983 to 1989 to major destinations is given in Table 8b. During this period the principal export markets for Indian garments have been the quota controlled regimes in western Europe and the US. The share of the east European nations has declined from the level of 15-17 per cent in the first half of the 1980s to around 10 per cent in the second half. With the breakup of the Soviet Union, exports to that region declined for the first time in recent years from Rs 362 crore in 1990 to Rs 287 crore in 1991. The developing countries continue to remain relatively insignificant for India's garment exports as their market share has remained stagnant at below 10 per cent throughout the 1980s. However, the share of west Asia and north Africa has picked up from the average level of 1 per cent through most of the decade to almost 2.9 per cent in 1989 and again to 5.6 per cent in 1991. This kind of a shift in market share to a non-quota region like west Asia and north Africa is a very welcome trend.

World trade in garments had declined between 1981 and 1983 but has picked up from 1984 onwards. Nevertheless a signifi-

TABLE 8a: DESTINATIONS OF INDIAN GARMENT EXPORTS, 1962-1978

(Values in thousand US \$)

	1962	1965	1967	1970	1974	1978
Total ('000' US \$)	1,797	12,990	12,044	36,381	1,63,248	4,09,956
DCs	603	4,863	1,128	12,783	1,22,513	3,46,175
Per cent	34	37	9	35	75	84
LDCs	1,014	2,918	2,492	4,253	8,796	23,696
Per cent	56	22	21	12	5	6
CPEs	179	5,209	8,423	19,346	31,938	40,086
Per cent	10	40	70	53	20	10
USA	279	8,481	291	2,493	37,278	1,23,343
Per cent	16	65	2	7	23	30
EEC	190	175	164	5,044	60,448	1,62,687
Per cent	11	1	1	14	37	40
EFTA	128	826	568	4,316	9,356	23,145
Per cent	7	6	5	12	6	6
E. Europe (incl USSR)	179	5,209	8,423	19,346	32,938	40,086
Per cent	10	40	70	53	19	10
USSR	154	4,123	7,265	18,467	28,297	36,425
Per cent	9	32	60	51	17	9
M. East	673	673	1,268	1,229	3,539	14,167
Per cent	37	12	11	3	2	3
Other Asia	0	486	674	1,224	2,270	2,854
Per cent	0	4	6	3	1	1
Africa	453	855	1,297	1,659	2,164	4,229
Per cent	25	7	11	5	1	1

Notes : 1. Figures for the EEC, prior to 1974, refer to the original 6 common market members. EFTA figures include Britain, Ireland and Denmark, which later joined the EEC.

2. Data are given for both 1965 and 1967 instead of 1966, because of the devaluation of the rupee in that year. This is likely to be the reason for the apparent decline in the trade in 1967 relative to 1965 in our data, which are in terms of US dollars.

Sources: 1. 'India's Manufactured Exports: 1957-1980' Anjali Kumar, 1986.

2. *Commodity Trade Statistics*, UN Statistical Series 'D'.

TABLE 8b: DESTINATIONS OF INDIAN GARMENT EXPORTS, 1983 TO 1991

(Values in Rs crore)

Sl No	Destinations	1983		1985		1987		1989		1991	
		Value	Share	Value	Share	Value	Share	Value	Share	Value	Share
1	West Europe	264	41.3	398	37.3	918	49.5	1,473	47.7	2,733	51.0
2	North and South America	249	38.9	406	38.0	660	35.6	1,030	33.3	1,597	29.8
	USA	226	35.3	346	32.4	604	32.6	911	29.5	1,328	24.8
3	East Europe	84	13.1	187	17.5	178	9.6	306	9.9	381	7.1
	Soviet Union	73	11.4	173	16.2	166	9.0	280	9.1	287	5.4
4	East Asia	15	2.3	42	3.9	40	2.2	106	3.4	209	3.9
	Japan	14	2.2	40	3.7	37	2.0	95	3.1	187	3.5
5	Oceanic Countries	12	1.9	19	1.8	25	1.4	54	1.7	63	1.2
6	W Asia and N Africa	10	1.6	10	0.9	17	0.9	89	0.9	301	5.6
7	Africa	4	0.6	2	0.2	6	0.3	16	0.5	39	0.7
8	South-East Asia	1	0.2	3	0.3	9	0.5	16	0.5	30	0.6
9	South Asia	0	0.0	0	0.0	0	0.1	0	0.0	0	0.0
10	North-West Europe	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0
11	Grand Total	640	100.0	1,068	100.0	1,857	100.0	3,091	100.0	5,358	100.0

Source: *Handbook of Export Statistics*, various issues, Apparel Export Promotion Council

GLOBALISING INDIAN AGRICULTURE

The Role of a Corporation



**Excerpts from the speech of
Shri K. L. Chugh, Chairman,
I.T.C. Limited,
at the 82nd Annual General
Meeting held on 20.7.1993.**

ITC has consolidated its leadership, and reinforced its pre-eminence as India's largest corporation in both agri-business and exports. Your Company contributes nearly 2% of India's foreign exchange earnings, 9% of the country's agri-exports, over 2% of the Government of India's tax revenue and provides livelihood, both directly and indirectly, to over 1% of India's population, including lakhs of farmer families.

I would like to share with you some thoughts on how Indian corporations, like yours, can work jointly with the Indian farmer to realise the full potential of Indian agriculture.

AGRICULTURE: THE DRIVING FORCE OF INDIA'S ECONOMY

Agriculture is the bedrock of India's economic activity.

With nearly 70% of our population dependent on agriculture, the Indian farmer represents the backbone of the Indian economy. He has proven his credentials and in just thirty years has transformed this nation to a land of self-reliance and plentiful reserves of food. Having created this miracle, he is now ready to take Indian farm produce to the world beyond our frontiers.

THE FARMER: CHALLENGES AND OPPORTUNITIES

Unhappily, only one-third of our irrigated potential is fulfilled, and even here our

yields are extremely low when compared with the best in the world.

India has 60 million hectares under irrigation, compared to just 47 million in China, and yet our foodgrain production is only 180 million tonnes, whereas China produces two and a half times as much. Nothing illustrates the divergence between promise and fulfillment than being the second largest producer of rice in the world, we are just 54th in yield; the second largest producer of wheat and 38th in yield; ranked no. 1 in groundnut production, we are 72nd in yield; the second largest producer in rapeseed and 33rd in yield; the third largest in tobacco and 42nd in yield.

In fruits and vegetables too, our position is as dismal. With a 7% share of world production in the former and an 11% share in the latter, we tragically process less than 1% of our total production commercially. In contrast Brazil processes 70% of its fruit and vegetable production, Malaysia 83% and Philippines 78%.

With 15 million hectares available for aquaculture, we use less than 5% of it. The long coastline with its treasure house of marine products is ideal for an integrated approach involving the development of hatcheries, feed-mills, processing plants and farms. Thanks to the climate along our sea coast, we can harvest up to two to three crops each year. This is India's significant competitive advantage over other countries, and can make India a major supplier to markets in USA, Japan and EEC.

How much better would have been our position if only our agricultural productivity had kept pace with our production. It is this area of yields and quality that requires our single-minded focus and attention if we are to leapfrog to our destined position of leadership, overcoming all constraints. One of India's eminent agricultural scientists, Dr M. S. Swaminathan, implores us to recognise that the "intelligent application of new technologies, allows for new patterns of development. The time between invention, innovation and commercialisation has been sharply reduced, through stronger links with industry. **Developing countries, for the first time, can leapfrog several stages in the development process through the application of bio-technology by industry.**"

PUNJAB: OUR GATEWAY TO THE WORLD

In the twenty years between 1970-71 and 1990-91, mean wheat yields in Punjab have grown over 66% from 2,257 kgs per hectare to 3,715 kgs per hectare. The variation in yields between farms, in the same area, provides an exciting possibility of improvement, through better input management and

farming practices. If the entire state was to equal the best farm productivity of the day, and adopt frontier technologies, like bio-technology, the economic results on farm productivity, and the resultant wealth creation would be mind-boggling. Punjab is the beacon of what we, as a country, can achieve in agriculture. We can make Indian farm produce internationally relevant and competitive.

ITC: THE FARMER'S COMPANY

For over eighty years, your Company has been associated with farms and farming. 90% of your Company's turnover is linked directly with agriculture, and the success of this partnership has resulted in the commercial conversion of tobacco to cigarettes, oilseeds to cooking oil, forest produce to paper & board and jute to specialty paper. It is this partnership and inter-dependence which has propelled ITC into becoming India's leader in agri-business, contributing 9% of India's total agri exports.

ITC is the bridge: between the consumer whose needs must be identified and served and





the farmer who must produce what is required by the consumer. Your Company pioneered a successful model of partnership in the tobacco sector, by introducing the crop, providing farmers both inputs and extension services, assisting with bank finance, assuring off-take at remunerative prices, converting agricultural produce into value-added branded consumer goods. This chain has brought wealth to the community, with just 0.2% of arable land yielding 4% of the Central Government's tax revenues, and 5% of India's agri-exports, and supporting lakhs of farmer and farm labour, and over 10 lakh small traders. This model has been successfully repeated on the sunflower crop and pulp-wood plantation, and is now being extended to oil palm and aquaculture.

It is your Company's endeavour to strengthen this linkage by the application of relevant knowledge and technology. It is your Company's mission to actively participate in the excitement of today's India, making this nation a force to reckon with in the world economy.

INDIAN AGRICULTURE : 10-POINT REVOLUTION

Though long overdue, it is a source of satisfaction that the Government has now produced a Draft Agricultural Policy, and has engaged a national debate. It is in this context that we need to focus on a 10-point programme for discussion and implementation.

INDIA : FULFILLING A DREAM

Each one of us has a vision. Each one shares a common dream : the dream to see land fertile and rich, our villages prosperous and

Indian Agriculture : A 10-point Revolution

- 1 Improve crop yields through bio-technology and the transfer of scientific knowledge to farmers. In support, set up a 'National Bio-Technology Venture Capital Fund'.
- 2 Focus on selected crops where India has, or can develop, a competitive advantage.
- 3 Reduce post-harvest losses by investing in agri-processing technology.
- 4 Facilitate farmer prosperity by tax incentives and consider no income tax for 10 years on agri-processing complexes in backward areas.
- 5 Remove inter-state barriers and disparate rates of taxation on agricultural produce; create an 'EEC' in India.
- 6 Globalise Indian agriculture through exports by early resolution of GATT issues.
- 7 Identify new crops for designation as plantation industries.
- 8 Provide rural economy and the farmers with easy access to capital markets. Here corporations can play a pivotal role.
- 9 Develop a commodity futures exchange by which Indian farmers could hedge their products by trading on international commodities exchanges.
- 10 Invite farmers to hold up to 20% equity in agri-based corporations.

farmers affluent, and India a proud member of the world economic community. For this, we need to reassert our belief in a three-way partnership : between the farmer, the corporation, and the consumer—both in India and the world. We need winning strategies. We need winning products. We need winning partnerships. Together we can globalise Indian agriculture.

This does not purport to be a report of the proceedings of the 82nd Annual General Meeting.

*For the full text of the speech, please write to:
The Corporate Public Relations Manager,
I.T.C. Limited, Virginia House,
37 Chowringhee, Calcutta 700 071*



I.T.C. Limited

New horizons, new hopes.

TABLE 9: CHANGES IN SHARES OF INDIA'S MAJOR GARMENT EXPORT MARKETS

(Values in rupees crore)

Sl No	Markets	1980		1981		1982		1983		1984		1985		1986		1987		1988		1989		1990		1991	
		Value	Share	Value	Share	Value	Share	Value	Share	Value	Share	Value	Share	Value	Share	Value	Share	Value	Share	Value	Share	Value	Share	Value	Share
1	USA	97	22.3	137	21.2	138	21.9	225	35.3	291	34.3	346	32.4	440	33.3	604	32.6	663	30.9	910	29.5	1,122	25.7	1,328	24.8
2	EEC	235	54.0	286	44.1	238	37.6	216	33.9	280	33.0	342	32.1	503	38.0	812	43.7	942	43.8	1,297	42.0	1,894	43.3	2,350	43.9
3	Other Restrained countries	25	5.7	45	7.0	40	6.3	43	6.7	67	8.0	92	8.6	91	6.9	111	6.0	116	5.4	179	5.8	281	6.4	294	5.5
4	Total Restrained Countries	355	81.6	470	72.3	416	65.8	485	75.9	640	75.3	781	73.2	1,035	78.2	1,528	82.3	1,723	80.2	2,388	77.3	3,298	75.3	3,973	74.2
5	Countries Outside Bilateral Agreement	78	17.9	179	27.7	205	32.5	154	24.1	209	24.7	286	26.8	288	21.8	328	17.7	425	19.8	702	22.7	1,079	24.7	1,384	25.8
	Total	435	100	650	100	633	100	640	100	850	100	1,067	100	1,323	100	1,857	100	2,148	100	3,090	100	4,377	100	5,358	100

Source: Data provided in Handbook of Export Statistics, various issues, Apparel Export Promotion Council.

cant change did take place in the direction of international garment trade between 1980 and 1985. It can be observed from Table 3 that the imports by the world market economy have been dominated by the US and the EEC. Together they have accounted for between 65 per cent and 70 per cent of imports in the recent past. But while, the US imports have risen significantly over this period, the imports of the EEC have shown a declining trend. Certain reasons can also be cited for this decline in imports by the EEC. In the first half of the 1980s some of the major currencies in the EEC depreciated and thereby increased the relative price of all imports. This had the effect of diverting trade to the US. After the extension in the MFA in 1977 the protectionist sentiment in the EEC had become far more intense than what it was in the US. Although the EEC was a signatory to the initial MFA in 1974, most European countries negotiated bilateral agreements with trading partners after 1977. And finally certain European countries like Italy, Portugal and Greece began to cater more to the EEC garment trade.

After mid-1985, the dollar began to depreciate *vis-a-vis* the other major currencies and this made imports priced in dollars more competitive in non-dollar markets. The resultant trade diversion can largely explain the reduction in the growth of garment imports in the US market after 1986. There was a corresponding surge in garment imports into the non-dollar markets of EEC and Japan during the period 1986 and 1987 (Table 3).

The reason for citing these trends in global garment trade is that they seem to have had a perceptible impact on India's own garment exports. Table 9 indicates that during 1980 to 1984 the direction of India's exports has to a large extent conformed to these world trends. Between 1980 and 1984 the value of garments exported to the US increased substantially from 22 per cent to 34 per cent while the share going to the EEC correspondingly declined from 54 per cent to 33 per cent. During the period 1985-90 the relative shifts in the shares going to the US and EEC have been largely governed by the extent to which they increased their quota allocations to India.

At this stage it is difficult to ascertain the actual impact of the EEC integrating into one common market. If we consider the possibility of a unified quota, then a large unified market should be to our advantage. But there are likely to be other measures to contend with, the major one being ISO-9000, which will come into effect by April 1, in the EEC. ISO-9000 is a quality control concept and after the unified EEC market comes into existence

it may become a mandatory requirement for all firms to get an ISO 9000 certification before exporting to the EEC.

ELUDING JAPANESE MARKET

Japan is a fast growing non-quota market for Indian garments. In the last three years, exports of readymade garments from India to Japan doubled from Rs 95 crore in 1989 to Rs 187 crore in 1991. However, the scope for expanding our trade with a liberal non-quota country like Japan is evident if we consider the fact that we are supplying at present no more than 1 per cent of the garments imported by it (Table 10). Amongst the developed countries Japan's import regulations on garments and textiles are undoubtedly the most liberal. By 1970, Japan had done away with most of its quotas regulating textile imports and has since been following a policy of gradual tariff reduction. In 1971, Japan was one of the first OECD countries to adopt a generalised system of preference (GSP) for developing country exports. This was in sharp contrast to other OECD countries who always tend to exclude textile and clothing imports from GSP provisions.⁶

In 1990, Japanese clothing imports amounted to \$ 8.7 billion, rising at an annual compounded rate of more than 12

per cent throughout the 1980s. Although the value of India's garment exports to Japan have been increasing in absolute terms, its share of the Japanese market has remained a negligible 1 per cent with China and South Korea accounting for more than half the market share in garments. One of the main reasons why we have not been able to acquire a larger proportion of the Japanese market is the variance in the item composition of our garment exports with that of Japanese garment imports. A comparison of the itemwise composition of Indian garment exports with those of Japanese garment imports reveals this (Table 11). India has relied rather heavily on fashion garments which explains why SITC No 843 (women's outerwear non-knit) has accounted for more than half the value of our garment exports in recent years. On the other hand, the itemwise breakup of Japanese garment imports shows that bulk of their imports centre around knitted outerwear (SITC 2 845), men's non-knit outerwear (SITC 2 842) and non-textile clothing accessories (SITC 2 848). Over the years, Japan has followed a policy of moving out of low value added products which can be imported at considerably lower prices from the developing countries. It has simultaneously concentrated on producing and exporting higher value added

TABLE 10: REGIONWISE COMPOSITION OF JAPANESE GARMENT IMPORTS
(January-December 1986, 1988, 1990)

Region/Country	1986		1988		1990	
	Value	Share	Value	Share	Value	Share
World	2,878	100.0	6,739	100.0	8,737	100.0
Developed market economy	483	16.8	1,065	15.8	2,162	24.7
Developing market economy	1,832	63.7	4,211	62.5	6,566	75.2
Centrally planned economy	563	19.6	1,463	21.7	9	0.1
EEC	401	13.9	840	12.5	1,779	20.4
South Korea	988	34.3	2,656	39.4	2,458	28.1
Hong Kong	332	11.5	544	8.1	554	6.3
China	557	19.4	1,453	21.6	2,400	27.5
India	29	1.0	43	0.6	82	0.9

Note : Values in US \$ m cif and share in percentages.

Source: UN Commodity Trade Statistics, Series D, various issues.

TABLE 11: ITEMWISE COMPOSITION OF JAPANESE GARMENT IMPORTS AND INDIAN GARMENT EXPORTS IN 1987

Item	SITC 2 No	Japanese Imports		Indian Exports	
		Value	Share	Value	Share
			Per Cent		Per cent
Clothing	84	4,674	100.0	1,500	100.0
Men's outerwear not knit	842	768	16.4	56	3.7
Women's outerwear non-knit	843	653	14.0	692	46.1
Undergarments not knit	844	—	—	241	16.1
Outerwear knit, non-elastic	845	1,606	34.4	223	14.9
Undergarments knitted	846	396	8.5	138	9.2
Textile clothing accessories	847	—	—	54	3.6
Headgear, non-textile clothing	848	762	16.3	97	6.5

Source: UN Commodity Trade Statistics, Series D, various issues.

items with a view to improving its terms of trade in clothing. Although the garments exported from India cannot be strictly classified as high value added items they are certainly of the fashionable variety which the Japanese prefer to manufacture themselves. When viewed in this context, there does not appear to be much conformity between the structure of our garment exports and Japanese import requirements.

What is more significant is that Japan has shifted its emphasis from pure trade in textile and clothing to that of foreign direct investment. A recent study on Japanese clothing and textile industries⁷ reveals some interesting facts in this connection. Since the early 1970s, Japanese companies have been setting up subsidiary units for clothing manufacture in most of the developing countries of east Asia and ASEAN. Japanese direct investment in textiles and clothing were initially undertaken in Taiwan and Thailand but later spread to South Korea, Indonesia, Malaysia and the Philippines. Details of the nature of foreign direct investment are shown in Table 12. As depicted in the table, by the end of 1980, Japanese companies owned 198 subsidiaries in these countries with almost half of them engaged in the manufacture of clothing. There is also evidence of high correspondence between countries receiving FDI from Japan and the regionwise breakup of Japanese clothing imports. This is borne out by juxtaposing Table 10 with Table 12.

There are several factors which explain the maintenance of a liberal trade policy in Japan. First, despite high clothing imports, Japan has remained a net exporter of textile products in general and fibres in particular. Secondly, the bulk of Japanese garments imports originate from south-east Asia and China with which Japan has a huge positive overall trade balance. Thirdly, as pointed out earlier Japan has undertaken significant direct investment in the textile industries of these very countries from which it imports.

COMPOSITION OF INDIAN GARMENT EXPORTS

In order to analyse the composition of Indian garment exports two major classifications have been used. In the first case garment exports to different regions may be classified according to the process involved in their fabrication. According to this criterion garments may be differentiated on the basis of their being handloom stitched, knitted or millmade. Table 13 has categorised garments under these heads highlighting some of the major destinations. From the figures in Table 13, it is apparent that millmade garments constitute the bulk of our exports to almost

all major markets except east Europe. In east Europe, particularly the erstwhile Soviet Union, there had always been a good market for Indian knitwear and these comprised about 60 per cent of Indian garment exports to that region. Table 13 also depicts the rapid decline in popularity of Indian handloom garments with its erstwhile patrons, the US and western Europe. The share of handlooms

is merely 0.2 per cent of our clothing exports to the US and is in the region of a negligible 0.5 per cent in the case of western Europe. This is a complete reversal of the position in the mid-70s where exports of handloom garments had reached a stage where their share in clothing exports was more than half. Today handloom garments constitute less than 0.5 per cent of India's overall clothing exports.

TABLE 12: JAPANESE DIRECT INVESTMENTS IN THE ASIA-PACIFIC TEXTILE SYSTEM, 1980
(Number of projects)

	Man-made Fibres	Spinning, Weaving, Knitting and Dyeing	Clothing	Total
Taiwan	3	20	22	45
Hong Kong	0	12	4	16
South Korea	5	8	33	46
Sub-total (East Asia)	8	40	59	107
Thailand	2	21	7	30
Indonesia	4	19	3	26
Philippines	4	3	6	13
Malaysia	1	10	3	14
Singapore	0	5	3	8
Sub-total (ASEAN)	11	58	22	91
Total	19	98	81	198

Source: Jose de la Torre, 'Clothing-industry Adjustment in Developed Countries', Thames Essays (No 38) Trade Policy Research Centre, London (1985).

TABLE 13: SEGMENTWISE COMPOSITION OF INDIAN GARMENT EXPORTS

	Year	Total Clothing Exports Value	Handloom Garments		Knitted Garments		Millmade Garments	
			Value	Share	Value	Share	Value	Share
West Europe	1983	264	10	3.8	46	17.4	208	78.8
	1984	330	4	1.4	47	14.5	277	84.0
	1985	398	2	0.7	55	14.0	339	85.3
	1986	587	2	0.4	106	18.1	478	81.6
	1987	919	6	0.7	205	22.3	707	77.0
	1988	1,051	4	0.4	246	23.5	799	76.1
USA	1983	226	27	12.3	5	2.5	192	85.2
	1984	291	16	5.7	9	3.3	265	91.1
	1985	346	6	1.8	10	3.0	329	95.3
	1986	440	4	1.0	9	2.2	426	96.9
	1987	605	7	1.3	28	4.7	568	94.0
	1988	664	9	1.4	40	6.2	615	92.5
	1989	910	6	0.7	48	5.3	856	94.0
	1990	1,122	4	0.4	59	5.3	1,059	94.3
	1991	1,328	2	0.2	90	6.8	1,235	93.0
East Europe	1983	84	0	0.7	50	60.1	33	39.8
	1984	119	0	0.2	78	66.3	39	33.2
	1985	187	0	0.2	94	50.7	91	49.1
	1986	172	0	0.2	109	63.4	62	36.2
	1987	178	0	0.1	114	64.2	63	35.7
	1988	222	0	0.0	144	64.9	78	35.2
Total	1983	640	44	6.9	108	16.9	487	76.2
	1984	850	41	4.9	144	17.0	664	78.1
	1985	1,067	37	3.5	166	15.6	863	80.9
	1986	1,323	25	1.9	232	17.6	1,064	80.5
	1987	1,857	20	1.1	362	19.5	1,474	79.4
	1988	2,148	20	0.9	456	21.2	1,672	77.8
	1989	3,091	18	0.6	679	22.0	2,392	77.4
	1990	4,378	11	0.3	985	22.5	3,379	77.2
	1991	5,358	16	0.3	1,218	22.7	4,123	77.0

Notes: Values in Rupees crore and shares in percentages.

Source: Handbook of Export Statistics, Apparel Export Promotion Council, various issues.

Another way of classifying garment exports is on the basis of their fibre base. Accordingly garment exports under three broad categories, namely, cotton, synthetic and woollen have been portrayed in Table 14. The fibre base for garments centres around cotton for woven clothes and wool for knitwear. However, the use of synthetic and blended fabrics, which was minimal until 1980, has picked up sharply during the period 1985-90. The cotton garment market is still active in the richer nations of western Europe and the US despite the emergence of low-cost, durable, synthetic blends. The value of woollen clothing, although increasing in absolute terms, had witnessed a declining share from 6.6 per cent in 1983 to 3.6 per cent in 1987. Woollen clothing catered primarily to the demand generated within the Soviet Union and had failed to make meaningful inroads elsewhere. With the breakup of the Soviet Union our once assured market has disintegrated. This is a cause for concern as can be seen from the sharp decline in exports of woollen garments in 1990 and 1991.

The itemwise composition of Indian garment exports also reveals that there has always been a fairly high degree of concentration in terms of items exported (Table 15). At the outset it should be noted that woven clothing has always comprised more than 70 per cent of India's clothing exports. And within this category the specific item which has predominated comes under the heading, "Women's outerwear non-knit" as per the SITC 2 No 842. In fact, non-knit women's outerwear non-knit" as per the SITC 2 per cent of India's garment exports since 1980-81. Woven women's outerwear include dresses, skirts and blouses. A glance at Table 15 shows that even within these items, clothing based on cotton fabrics have accounted for virtually all the exports. Another significant item which has also been the mainstay of our garment exports are men's shirts made of cotton (SITC 2 No 84411). It may therefore be concluded that both in terms of items and in terms of the fibre base Indian garment exports are not sufficiently diverse in nature.

This overwhelming dependence on specific items whose demand in the international market is determined more by fashion than anything else, does not augur well for India's garment exports in future. This is borne out by two disastrous episodes in the past which emphasised that garment exports based on fashion items can be very risky. For a short period in the late 1960s there was an unprecedented demand for a specific type of Indian handloom shirt known as the 'Bleeding Madras'. These shirts had become a fad in the US and huge quantities of shirts

based on this fabric began to be exported. As a consequence there was an over-enthusiastic response from Indian manufacturers to produce more of them and cash in on the windfall. But the fashion boom associated with such garments tend to fade as suddenly as they appear. And that is precisely what happened in the case of the 'Bleeding Madras' shirts whose sales crashed in 1969-70 following an abrupt decline of these fashions. The fall-out proved catastrophic for the garment exporters engaged in exporting these shirts. Huge unsold stocks had accumulated and there was no other choice but to resort to distress sales in the Indian market. A similar boom was witnessed in the early 1970s for another specific fabric known as 'cheese cloth', which had become immensely popular in the US and Europe. The demand for this fabric proved to be equally volatile and the inevitable crash came in 1975-76.

In view of the climatic features of Europe and the US, Indian garments of this type could be worn only in spring and summer. This explains the seasonal nature

of demand for Indian garment exports. At the same time the demand for such clothing is determined purely by the vagaries of fashion and taste. Coupled with the instability of demand is the inability to profitably divert such garments into the domestic market in the event of failure to export them. These garments are tailor-made to conform to the prevailing western fashion which are not in keeping with the Indian tastes for clothes.

A comparison of the composition of India's garment exports with the exports from countries of east Asia makes it appear that both the fabric and the item concentrations of Indian exports are unusually high. In Table 16 the composition of Indian clothing exports has been compared with that of Hong Kong and South Korea for the year 1987. For India, one notes the predominance of woven clothing which is not so pronounced in the case of Hong Kong and South Korea. It should also be kept in mind that the fibre base for woven clothing exports from India is primarily pure cotton. In terms of items the top category of India's exports (SITC 2

TABLE 14: FABRICWISE COMPOSITION OF INDIAN GARMENT EXPORTS

	Year	Total Clothing Exports Value	Cotton		Synthetic		Woollen	
			Value	Share	Value	Share	Value	Share
West Europe	1983	264	241	91.4	22	8.3	0.6	0.2
	1984	329	309	93.7	20	6.1	0.6	0.2
	1985	398	338	85.0	59	14.9	0.5	0.1
	1986	587	471	80.3	115	19.7	0.4	0.1
	1987	918	815	88.7	102	11.2	1.0	0.1
	1988	1,050	888	84.5	161	15.4	0.7	0.1
USA	1983	225	199	88.1	24	10.8	2.5	1.1
	1984	291	253	86.9	37	12.8	0.8	0.3
	1985	346	290	83.9	54	15.6	1.5	0.4
	1986	440	331	75.2	107	24.4	1.6	0.4
	1987	604	457	75.7	145	24.0	1.9	0.3
	1988	663	476	71.8	185	27.9	2.0	0.3
	1989	910	604	66.3	304	33.4	3.4	0.4
	1990	1,122	670	59.7	450	40.1	2.8	0.2
	1991	1,328	853	64.2	465	35.0	10.6	0.8
East Europe	1983	84	44	52.1	2	2.7	38	45.0
	1984	118	67	56.7	4	3.5	47	39.6
	1985	187	122	65.08	8	4.3	57	30.5
	1986	171	99	57.6	6	3.8	66	38.4
	1987	178	106	59.8	8	4.6	63	35.4
	1988	222	143	64.3	5	2.5	74	33.3
Total	1983	640	540	84.4	58	9.1	42	6.6
	1984	850	727	85.5	73	8.6	50	5.9
	1985	1,068	873	81.7	135	12.6	60	5.6
	1986	1,323	998	75.4	256	19.3	69	5.2
	1987	1,857	1,506	81.1	283	15.3	67	3.6
	1988	2,148	1,688	78.6	383	17.8	77	3.6
	1989	3,090	2,111	68.3	867	28.1	111	3.6
	1990	4,377	2,801	64.0	1,500	34.3	76	1.7
	1991	5,358	3,662	68.4	1,666	31.1	29	0.5

Notes: 1 Values in rupees crore.

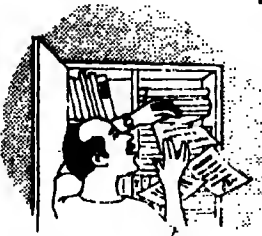
2 Fabricwise composition to west and east Europe could not be compiled for the years 1989 to 1991 owing to inadequacy of data.

3 The figure for total garment exports is not just an aggregate of west Europe, east Europe and the US but includes all other destinations like north and west Africa, east Asia, etc.

Source: *Handbook of Export Statistics*, Apparel Export Promotion Council, various issues.

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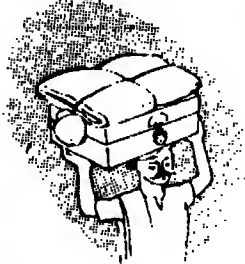
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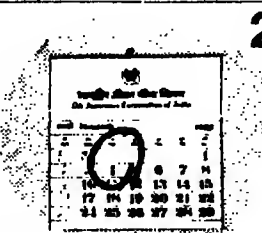
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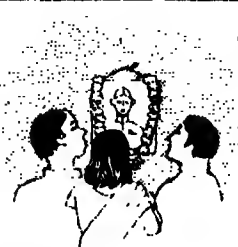
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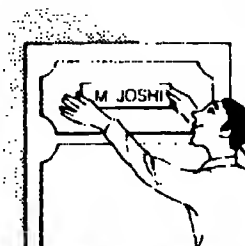
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No 843) accounted for 46 per cent of India's garment exports. For Hong Kong and South Korea the top item accounted for 29.5 per cent (SITC No 845) and 22.8 per cent (SITC No 845) of their total exports respectively.

The high item concentration in India's garment exports shows that we have relied rather heavily on a small range of items. Given the highly volatile nature of demand in the international market such lack of diversification is not conducive for garment exports in the long run. When viewed in this context the current boom in garment exports should not give rise to complacency. The composition of garment exports of the world leading exporters like Hong Kong and South Korea reveal a far more balanced spread amongst the different items.

Moreover, the heavy reliance on pure cotton as the fabric base points to another underlying weakness in our garment trade. It also explains why our garment exports have not been able to penetrate new markets in a big way and have remained confined to the US and the EEC. The pure cotton garments which form the bulk of our garment exports are popular only in the rich countries. Indian garment exporters have been encouraged to explore markets in non-quota countries owing to the stringent upper limits on exports to the restrained countries. But tapping these non-quota countries in effect implies making inroads into the markets of the developing economies like Africa, west Asia and Latin America.⁸ But the inhabitants of these countries have an obvious preference for blended fabrics which are cheaper, more durable, and easier to wash and iron. This is also borne out by the fact that our otherwise modest garment exports to west Asia and north Africa comprise mostly synthetic garments. Cotton garments are popular in the rich countries since they are soft and absorbent and are perceived to be more fashionable on account of being natural. But these positive attributes of cotton garments do not find favour with the consumers of developing countries whose perceptions are guided more by economic considerations. And today, polyester-cotton blends are cheaper in the international market than pure cotton.

HOW COMPETITIVE ARE INDIAN GARMENTS

It is important to analyse why India has been able to compete effectively in garment exports with cotton as the fabric base and its inability to export garments based on man-made fibres on a commensurate manner. This in turn would necessitate an analysis of the cost structure of the cotton textile industry and that of man-made fibres.

In the cotton textile industry, the prices paid for raw cotton constitutes the most important element in the cost of production of cloth. According to most estimates, raw cotton accounts for 50 per cent of the cost incurred in the production of cloth.⁹

India had been a net importer of raw cotton from 1951-52 to 1977-78. But from 1978-79 onwards, this trend has been reversed with India emerging as a net exporter. And over the last decade, the Indian cotton textile industry has relied on the domestic production of raw cotton for the bulk of its requirements. On the other hand, successful garment exporting countries like Hong Kong, Taiwan and South Korea do not grow any cotton and make use of their access to the world market for raw cotton. In this regard, it would be interesting to make a comparison

between prices of Indian cotton and that available in the international market. The problem arises from the fact that there are a wide range of cotton varieties grown both here and abroad. And in order to make a meaningful comparison one has to select appropriate varieties of cotton from the domestic and international markets. This intricate task has been successfully accomplished by the East India Cotton Association (EICA) and Ashok Gulati (1987).¹⁰ The varieties selected for comparison belong to different staple length groups and are the most significant in the major cotton growing areas of India.

Gulati's study shows that for each of the selected varieties the prices of Indian cotton in the 1980s were considerably lower than their foreign counterparts. From this one can infer that in the 1980s

TABLE 15: ITEMWISE COMPOSITION OF INDIAN GARMENT EXPORTS

Item	SITC 2 No	1985		1986		1987	
		Value	Share	Value	Share	Value	Share
Clothing and accessories	84	914	100.0	1,104	100.0	1,500	100.0
Men's outerwear not knit	842	42	4.6	44	4.0	56	3.7
Women's outerwear							
non-knit	843	488	53.4	589	53.4	692	46.1
Dresses	8,433	105	11.5	121	11.0	115	7.7
of cotton	84,332	95	10.4	108	9.8	—	—
Skirts	8,434	64	7.0	75	6.8	91	6.1
of cotton	84,342	60	6.6	64	5.8	—	—
Blouses	8,435	230	25.2	291	26.4	337	22.5
of cotton	84,351	204	22.3	250	22.6	—	—
Other outerwear	8,439	54	5.9	71	6.4	90	6.0
of cotton	84,393	29	3.2	39	3.5	—	—
of other fibres	84,399	23	2.5	31	2.8	—	—
Undergarments not knit	844	195	21.3	223	20.2	241	16.1
Men's shirts	8,441	180	19.7	209	18.9	233	15.5
of cotton	84,411	175	19.1	200	18.1	223	14.9
Outerwear knit,							
non-elastic	845	100	10.9	108	9.8	222	14.8
Jerseys, pullovers, etc	8,451	78	8.5	71	6.4	74	4.9
Undergarments knitted	846	30	3.3	54	4.9	138	9.2
Textile clothing accessories	847	25	2.7	29	2.6	54	3.6
Headgear, non-textile							
clothing	848	34	3.7	57	5.2	97	6.5

Note: Values in US\$ million and percentage share in total clothing exports.
Source: Compiled from *UN Yearbook of International Trade Statistics, 1989*.

TABLE 16: ITEMWISE COMPOSITION OF GARMENT EXPORTS

Item	SITC 2 No	South Korea 1987		Hong Kong 1987		India 1987	
		Value	Share	Value	Share	Value	Share
Clothing and accessories	84	7,537	100.0	10,719	100.0	1,500	100.0
Men's outerwear not knit	842	1,275	16.9	1,561	14.6	96	3.7
Women's outerwear							
non-knit	843	1,216	16.1	2,928	27.3	692	46.1
Undergarments not knit	844	667	8.8	913	8.5	241	16.1
Outerwear knit,							
non-elastic	845	1,718	22.8	3,161	29.5	223	14.9
Undergarments knitted	846	731	9.7	1,048	9.8	138	9.2
Textile clothing accessories	847	308	4.1	2,581	24.1	54	3.6
Headgear, non-textile							
clothing	848	1,622	21.5	850	7.9	97	6.5

Note: Values in US\$ million and shares in percentages.
Source: Compiled from *UN Yearbook of International Trade Statistics, 1989*.

India's remarkable success in the export of cotton garments can be partially attributed to the cost advantage it had in raw cotton.

It is important to note that this is a recent phenomenon applicable to the decade of the 1980s in which India had achieved a surplus in raw cotton. Studies conducted for the decade of the 60s and early 70s have shown that raw cotton prices in India were higher than the corresponding prices in Hong Kong, South Korea and Taiwan.¹¹

A detailed comparison of the cost structure of Indian cotton textile industry with that of other successful garment exporting countries is beyond the scope of this paper. This would entail analysing capital costs and labour costs in addition to raw material costs. Moreover, the popularity of Indian cotton garments in the US and EEC is not on account of the fact that they are competitively priced. Rather it is the exclusive nature of Indian clothing that has rendered price comparisons redundant.

High prices of finished garments or any manufactured commodity for that matter, could be the result of high input prices, high conversion costs, or both. What is more significant for the garment exporter is the price of finished fabric as fabric costs generally constitute almost two-thirds of the selling price of a standard garment.

II

The Indian Garment Industry

COMPARATIVE ADVANTAGE IN GARMENT EXPORTS

For those developing countries that have attained a certain degree of industrialisation the more labour-intensive of modern industrial activities are likely to show a significant comparative advantage vis-a-vis traditional domestic activities. The manufacture of clothing has remained a low-skilled labour-intensive industry with the share of labour generally accounting for 90 per cent of the total value added. Consequently it has always provided low wage developing countries with a competitive edge in international trade. Developing countries like Hong Kong, South Korea and Taiwan have biased their incentives to facilitate the export of simple, labour-intensive manufactures, in particular clothing and textiles, to developed market economies. This goes a long way in explaining their success in export-led growth strategies that entail generating high profits, high savings and investment, high growth and in the process changing the pattern of their comparative advantage.

The clothing and textile manufacturers in the industrial market economies have

responded to third world competition by investing in advanced technology that reduces the labour content of operations. In the case of the textile industry, the introduction of capital-intensive equipment increased labour productivity and did succeed in partially reversing the comparative advantage in favour of high-wage industrialised countries. However, the clothing industries in the developed countries did not witness such dramatic labour-productivity gains as the production process in the manufacture of readymade garments offers limited scope for radical technical change.

The processes involved in the manufacture of clothing can be broadly classified into three stages: (1) a pre-assembly phase which involves grading and cutting cloth; (2) an assembly or sewing phase; and (3) a finishing process that includes inspection, pressing and packing. The sewing operation or assembly phase accounts for a much larger proportion of the total costs than pre-assembly. Technological upgradation in the clothing industry has been undertaken at different stages of the production process but have had the greatest impact on the pre-assembly stages. Assembly operations have remained,

TABLE 17: VALUE ADDED, INVESTMENT AND RESOURCE EFFICIENCY

	1980-81		1982-83		1984-85		1986-87	
	Total Manufacturing	Garments	Total Manufacturing	Garments	Total Manufacturing	Garments	Total Manufacturing	Garments
Value added/gross output (per cent)	22.6	15.0	20.4	14.4	22.1	18.3	20.9	17.3
Wages to workers/value added (per cent)	28.5	33.0	27.5	29.5	27.2	24.7	26.6	23.0
Gross investment/value added-wages to workers (per cent)	80.0	27.2	61.5	37.7	52.0	42.6	54.0	23.0
Net investment/value added-wages to workers (per cent)	57.2	18.2	44.2	29.4	51.8	34.6	32.8	20.9
Gross output/fixed capital	2.0	12.3	3.5	12.6	3.1	11.2	3.1	11.9
Gross output/fixed capital plus inventories	1.9	10.6	3.2	10.2	3.0	7.6	2.9	9.8
Gross output/employment (Rs '000)	101.0	86.0	140.0	116.2	180.3	122.5	233.5	176.9

Source: Annual Survey of Industries, Summary Results for Factory Sector, various issues.

TABLE 18: AVERAGE IMPORT-WEIGHTED AD VALOREM TARIFFS BEFORE AND AFTER TOKYO ROUND OF MULTILATERAL TRADE NEGOTIATIONS

	All Dutiable Manufactures		Textile Mill Products		Apparel and Miscellaneous Made-up Products	
	Actual	Per Cent Change	Actual	Per Cent Change	Actual	Per Cent Change
	(Percentages)					
All countries						
1976	8.1		17.0		25.9	
Final	5.6	-30.8	11.4	-32.9	21.1	-18.5
Developing countries						
1976	na		12.0		26.7	
Final	na	na	0.2	-31.7	22.0	-17.6
European Community						
1976	10.0		11.7		16.0	
Final	7.1	-29.0	8.6	-26.5	12.1	-24.4
Japan						
1976*	15.3		10.5		13.5	
Final	13.4	-12.4	9.0	-14.3	13.2	-2.2
Canada						
1976	12.8		21.5		22.9	
Final	9.1	-28.9	15.1	-29.8	21.2	-7.4

Note: In the table 'na' signifies 'not available'.

* Actual rates which are smaller than required under previous GATT commitments.

Source: Jose de la Torre, 'Clothing-industry Adjustment in Developed Countries', Thames Essay No 38 (London: Trade Policy Research Centre, 1985), Table 4.2.

largely labour-intensive. These factors in a way explain the limited impact of actual machine operations insofar as its ability to reduce the incidence of labour is concerned.

This is not to suggest that clothing manufacturers in the developed countries are not competitive. However, the competitive struggle waged by them relies more on non-price factors, in which, according to theory, the developed country producers have a comparative advantage. There has been a shift of emphasis in the garment industry from production to marketing during the latter half of the 1980s and this reflects the growing significance of competitive factors other than price. Traditionally competition in the clothing industry has been primarily on cost so that developing countries were able to derive comparative advantage on account of their low-wage costs. But now non-price factors such as design, quality and variety will have to be contended with and such a trend will have implications for exporters from developing countries.

PRODUCTION PATTERN AND INTERNAL ORGANISATION

The Indian garment industry is almost entirely in the private sector and has a diverse production base. On the one hand there are the factory based clothing industries owned by the major textile mills. These factories use power driven specialised machinery and are mostly engaged in the production of standard garments for the domestic market. Besides the regular factory a diversified 'subcontracting system' evolved as another form of production in the garment industry.¹² This was characterised by a number of small tailoring and fabrication units which operate under a contract from a parent firm. Division of labour could be attained by subdividing the production process whereby each of the different subcontracting units had a specified function. This was facilitated by the fact that most of the light machinery used was owned by the various sub-contractors thereby distributing capital costs. Some of the more specialised equipment required was installed in the parent firm. Payments to the various functionaries operating under the parent firm were usually made on a piece-rate basis. This diversified production pattern as opposed to the integrated factory was largely prevalent in the garment export industry. As some of the subcontracting units were not even registered as factories they were able to derive the benefits of a flexible labour base. Owing to the seasonal nature of demand for Indian garments abroad this made things more cost-effective from the point of view of the entrepreneur. More labour could be employed during the busy season and

made to work more intensely. This labour would have been redundant during the slack period. But the problems associated with retrenching idle labour were not there as labour was engaged on a purely *ad hoc* basis in the first place. This would not have been possible in a regular factory as they would come under the purview of strict labour laws. The distribution in the burden of fixed capital between the different operational units made it possible for entrepreneurs to enter the industry without having to make heavy investments. This induced many small firms to enter the garment export business in the 1970s. But on account of the volatile nature of international demand for garments, the casualty rate was also fairly

high. On certain occasions upheavals in demand resulted in the closing down of many firms. What could really sustain a garment export firm in the long run was its ability to adapt to fluctuating demand patterns abroad. And the flexible production base discussed above, to an extent gave a firm the requisite resilience and proved to be a crucial factor in the success of the garment export business.

One of the reasons why such a system evolved was the absence of a proper linkage between the garment export industry and the production of garments for the domestic market. Most of the small garment exporters relied entirely on external demand and sold their items in the domestic market only in the form of distress

TABLE 19: NOMINAL (MFN) TARIFF RATES ON COTTON TEXTILE AND CLOTHING IMPORTS FROM DEVELOPING COUNTRIES, BEFORE AND AFTER THE TOKYO ROUND
(Percentage of cif value)

Item	USA			EEC		
	Before Reduction	After Reduction	Per Cent Change	Before Reduction	After Reduction	Per Cent Change
Clothing	16.9	13.7	18.9	19.3	8.8	54.4
Cotton fabric	14.0	10.0	28.6	9.8	7.4	14.5
Cotton yarn	7.0	6.0	14.3	8.2	6.8	17.1
Raw cotton	0.0	0.0	---	3.3	1.9	42.4

Note : MFN refers to Most-Favoured-Nation tariffs; available to all GATT signatories.
Source: Anjali Kumar, 'India's Manufactured Exports', 1980.

TABLE 20: UTILISATION OF GARMENTS AGAINST RESTRAINED LEVELS DURING JANUARY-DECEMBER
(Qty in '000 pieces)

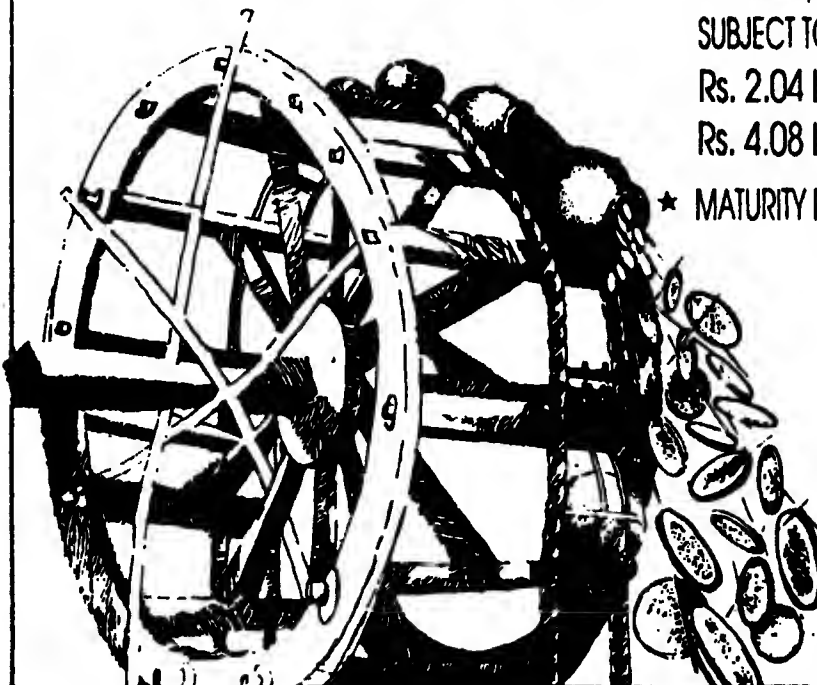
Countries	Year	Base Level Quantity	Shipment during January-December	Percentage Utilisation
USA*	1985			100.2
	1986			109.8
	1987	1,20,740	1,40,341	116.8
	1988	1,42,636	1,54,426	117.2
	1989	1,56,164	1,73,488	111.1
	1990	1,67,524	1,87,669	112.1
	1991	1,78,328	2,06,935	116.0
EEC	1985	95,512	66,043	69.2
	1986	97,396	86,479	88.8
	1987	1,12,634	1,20,278	106.8
	1988	1,18,728	1,15,145	97.0
	1989	1,52,455	1,56,265	102.5
	1990	1,57,904	1,73,653	110.0
	1991	1,64,718	1,64,997	100.2
Canada	1985	7,897	8,531	108.0
	1986	8,371	6,589	78.7
	1987	8,751	7,993	91.3
	1988	9,747	9,832	100.9
	1989	10,332	12,017	116.3
	1990	10,952	11,541	105.4
	1991	11,609	12,665	109.4
Total**	1987	2,49,494	2,76,220	101.7
	1988	2,78,103	2,84,925	102.5
	1989	3,26,092	3,47,964	106.7
	1990	3,43,032	3,78,999	110.5
	1991	3,57,705	3,66,815	108.1

Note : * The unit used by the US for fixing quotas is square metre equivalent and not pieces.

** The total figure is not just an aggregate of the US, EEC and Canada but also includes other restrained countries like Norway, Sweden, Finland and Austria which are not indicated in the table.

Source: Handbook of Export Statistics, Apparel Export Promotion Council.

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sales. On the other hand, the large clothing factories affiliated to the textile mills found it more profitable to cater to the domestic market where fluctuations in demand patterns are less and buyers are not so exacting in terms of quality and preference.¹³

However, the most compelling reason why large Indian companies have not been able to invest in the garment sector is because it is presently reserved for the small-scale industries (SSI) sector where investment in plant and machinery cannot exceed Rs 60 lakhs (Rs 75 lakh in case of ancillary units). Under the existing policy framework, garment factories involving investment in plant and machinery beyond the limits prescribed for SSI units can be allowed only if they undertake an export obligation of 75 per cent of their total production to General Currency Area (GCA) countries. Moreover, the export obligation is fixed on a continuous basis without any time limit. Most Indian companies consider an export obligation of 75 per cent, and that too in perpetuity, to be an unduly stiff imposition. Consequently, there has been very little response from large-scale undertakings for the manufacture of garments.

The polarisation between the domestic garment market and the export market that one witnessed in the 1970s is not so pronounced now. Over the years clothes stitched according to western fashion are becoming increasingly accepted in the Indian domestic market. In the major cities, some people have begun to prefer the more 'westernised' garments instead of traditional Indian garments. As a result of this phenomenon some garment exporters have started opening retail outlets in the metropolitan cities.¹⁴ Another reason why the markets were segregated was the predominance of fashionable handloom garments in the composition of garment exports during the 1970s. Such fashion garments were a bit too exclusive and did not find favour with the domestic market. As mentioned earlier, ladies outerwear comprising dresses, skirts and blouses account for more than half the value of Indian garment exports, whereas Indian ladies, by and large, do not wear western clothes. But the declining share of handloom garments and the corresponding increasing share of garment based on powerloom fabrics have necessitated a little more interaction of the two markets. In India, the mill sector produces most of the country's yarn output. However, it accounts for less than half the country's fabric supply. The bulk of the fabric is produced in the decentralised sector consisting of powerlooms and some subsidised handlooms. Initially the interaction between the domestic and export sectors was reflected in the competition between the two over the limited supply of fabric

If the garments produced for the export market and those produced for the domestic market remain mutually exclusive this competition is likely to intensify. This is corroborated by the fact that both the sectors are now relying more on fabrics from the powerloom sector. A better form of competition can emerge if the export sector produces more garments of the standard variety that find greater acceptance in a wider range of markets. At the same time firms which begin production initially for the domestic market can try and secure a part of the export market in order to raise capacity or utilise existing capacity more fully. So the nature of competition needs to undergo a change from that of trying to procure a larger share of the limited supply of domestic fabric to that of trying to capture a larger overall market share of the increasing world trade in garments.

VALUE ADDED, INVESTMENT AND RESOURCE USE

The *Annual Survey of Industries (ASI)* published by the CSO provides data on various aspects of the manufacturing sector which includes garments. The summary results for the factory sector cover both the census sector and the sample sector. And with the nature of firms within the garment industry varying from the integrated factory to the small subcontracting units, they obviously come under the purview of both the census sector and the sample sector. Put in view of the large amorphous sector catering to the export market there is still a lot of under-reporting of the garment industry. For instance, ASI reports that the value of gross output in the Indian garment industry in 1986-87 was Rs 819 crore. And the Economic Survey reports that in 1986-87 the value of garment exports alone was Rs 1,218 crore.

Owing to these anomalies, we realised that it would not be meaningful to analyse the absolute magnitudes of value added, investment and other such indicators. So we decided to focus on the relationships between these aggregates. With these considerations in mind, the following observations can be made from the ratios in Table 17.

(a) The share of value added in gross output for the garment industry which was about 15 per cent in 1980-81 increased to the region of 17 per cent after 1984-85. But this proportion is lower than that for the manufacturing sector as a whole where it has been above 20 per cent. Given the nature of manufacturing within the garment industry, it is not surprising that value added *per se* is lower than for other industries. It is evident that garment manufacturers cannot be expected to add as much value to the materials used by

them, as say, the engineering industry would. What is more important is the sourcing of the materials used by them to create stronger backward linkages.

(b) On account of the relatively high labour intensity of garment production, the share of wages in value added should be higher for the garment sector than for all manufacturing. If the figures in Table 17 indicate otherwise, it may be due to the large measures of under-reporting as many firms subcontract a part of their work and so effectively employ more workers than are recorded on their payrolls. It is also difficult to estimate the level of employment in the garment industry as many of the subcontracting units operate within their households.

(c) A higher share of wage compensation reduces the potential investible surplus in industry. Table 17 shows that from the potentially investible amount (value added wage compensation) the garment industry invests a much smaller fraction than all manufacturing firms do. Given the low wage rates, the Indian garment export sector has thrived on manual technologies. The low investment ratios also explain why despite having a huge resource of skilled tailors productivity is low in the garment industry. But it is also true that the Indian garment industry, by virtue of being highly labour intensive, had advantages

TABLE 21: ANNUAL GROWTH RATE IN QUOTAS
(Qty in '000 pieces)

Countries	Year	Base Level Quantity	Annual Growth Rate in Quotas
USA*	1985		7.0
	1986		7.0
	1987	1,20,740	17.4
	1988	1,42,636	18.1
	1989	1,56,164	9.5
	1990	1,67,524	7.3
	1991	1,78,328	6.4
EEC	1985	95,507	2.0
	1986	97,396	2.0
	1987	1,12,634	15.6
	1988	1,18,728	5.4
	1989	1,52,455	28.4
	1990	1,57,904	3.6
	1991	1,64,718	4.3
Canada	1985	7,897	6.0
	1986	8,371	6.0
	1987	8,751	4.5
	1988	9,747	11.4
	1989	10,332	6.0
	1990	10,952	6.0
	1991	11,609	6.0
Total**	1987	2,49,494	
	1988	2,78,103	11.5
	1989	3,26,092	17.3
	1990	3,43,032	5.2
	1991	3,57,705	4.3

Note : As in Table 20

Source: Compiled from data provided in *Handbook of Export Statistics*, Apparel Export Promotion Council.

in terms of its limited use of scarce capital and the high productivity of the capital put to use. We cannot state unequivocally that in order to raise productivity, we must go in for further mechanisation of production and in the process install sophisticated machinery. The question of a trade off arises as such a measure would result in considerable displacement of labour and may even lower the high output-capital ratio within the garment industry. (d) The last three ratios give an indication of the efficiency with which resources are being utilised by the garment sector and the manufacturing sector in general. Given the low capital intensity of the garment industry in India, it has a much higher output-fixed capital ratio than the manufacturing sector average. The decline in the output-fixed capital ratio is more pronounced in the garment industry when inventories are accounted for. This is because the garment industry, by the very nature of the items it manufactures, has a relatively high level of inventories. A reduction would reduce overall costs and this could serve as a potential source for further efficiency. However, the total capital tied up in production (fixed assets plus inventories) in the garment sector is far more productive than the manufacturing sector as a whole.

On the other hand, the high labour intensity of garment manufacture is apparent from the gross output-employment ratio. Between 1980-81 and 1986-87, this ratio has increased substantially for the garment sector and the manufacturing sector as a whole. But the gross output-employment ratio has always remained higher in the manufacturing sector average. In 1986-87, one worker in the garment industry produced Rs 1,76,000 worth of output. Correspondingly, one worker in the overall manufacturing sector produced Rs 2,33,500 worth of output.

On the basis of these indicators, one can derive the conclusion that the garment industry uses more labour per unit of output but much less capital per unit of output *vis-a-vis* the manufacturing sector as a whole.

III The Regulatory Regime

RESTRICTIONS ON INTERNATIONAL TRADE

Restrictions on international trade in clothing and textiles have been in force throughout the period studied. Of the instruments available for protection, namely, tariffs and quotas, the latter have assumed much greater significance in recent years. In this section we propose to evaluate the principal restrictive agreements negotiated since 1970.

The two major markets for garment exports of developing countries, the US and the EEC, have steadily increased their degree of domestic protection. After the reductions in tariffs in the 1950s there was a considerable rise in textile imports from developing countries like Japan and Hong Kong into the markets of western Europe and the US. This induced the first formal restriction which was called the Short-Term Arrangement (STA) on textile trade. Its principal focus was on Japanese cotton goods and was effective for one year from October 1, 1961. Thereafter, there has been a steady increase in country and commodity coverage through the Long-Term Agreement (LTA) which came into effect on January 1, 1974. It is important to note that the main target of the LTA was cotton textile imports and not clothing or apparel.

However, the developed countries gradually realised that an agreement that confined itself to cotton textile imports alone would not be an adequate form of protection. This was because of the rapidly rising imports of man-made fibre textiles and clothing. The US, for example, saw its cotton textile imports double from 1960 to 1970. But this was nothing when compared with its imports of man-made fibre textiles which increased ten-fold over the same period.¹⁵ These factors induced the formulation of the more extensive MFA which replaced the LTA and went into effect from January 1974. The MFA, like the LTA, has been designed to protect the textile industries of the US and EEC from competition from the develop-

ing countries. But the MFA was far more exhaustive in its coverage and brought under its purview cotton, wool, man-made fibre textiles and textile products. After its inception in January 1974, the MFA has been renewed three times. With MFA II coming into effect from January 1, 1978 there was a tendency towards intensification and proliferation of restrictions. The focus of restraints shifted progressively from textiles towards clothing, as this appeared to be the sphere in which the developed countries were most conscious of the competition from developing countries.¹⁶ The third renewal of the MFA in 1986 resulted in stringent limits on the export growth for major Asian suppliers who catered to the US and EEC markets. The top three Asian exporters, namely, Hong Kong, South Korea and Taiwan were not permitted any growth in quotas for 'sensitive' clothing product categories. In view of the increasingly restrictive MFA quotas these countries have now moved upmarket in the clothing items they produce.¹⁷ However, the allotment of quotas for smaller exporters like India and the ASEAN countries have been more liberal.¹⁸

The MFA provides a framework for conducting trade in textiles and clothing which is a significant departure from the general agreement on trade and tariffs (GATT). GATT, by and large, subscribes to the principle of comparative advantage and its provisions uphold the doctrine of non-discrimination between trading partners. Trade barriers in the form of tariffs advocated by GATT are considered non-discriminatory as they apply to the imports of all countries in an equitable manner. With the imposition of tariffs, a country's share in clothing/textile imports in different markets would be affected only if the price elasticities of demand for that particular country's items differed significantly from those for other countries.

The MFA, on the other hand, is based on quantitative restrictions or quotas which restrict the import of specific products from specific countries. Under

TABLE 22: UNIT VALUES INDICES OF INDIAN GARMENT EXPORTS (1980 TO 1991)

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991
Value of garment exports (Rs million)	4,355	6,500	6,335	6,401	8,501	10,676	13,231	18,574	21,486	30,908	43,776	53,581
Volume of garment exports (Qty in million pieces)	141	199	187	194	231	256	301	384	397	494	603	665
Unit values (Rs piece)	30.8	32.7	33.9	33.1	36.9	41.7	44.0	48.3	54.2	62.6	72.6	80.6
Unit value index (Rs)	100	106	110	107	120	135	143	157	176	203	236	261
Exchange rate (Rs-US \$)	7.86	8.66	9.45	10.09	11.36	12.37	12.61	13.00	13.92	16.23	17.47	22.60
Unit values (US \$)	3.92	3.77	3.59	3.28	3.25	3.37	3.49	3.72	3.89	3.85	4.16	3.57
Unit value index (US \$)	100.0	96.2	91.4	83.6	82.8	86.0	89.0	94.8	99.2	98.3	106.0	90.9

Sources: 1 *Handbook of Export Statistics*, Apparel Export Promotion Council.

2 *International Financial Statistics*, IMF.

the MFA, developed countries negotiate bilateral agreements with individual trading partners which limit the amount that can be exported by the latter. A very sizeable portion of our garment exports are accounted for by countries with which we have entered into bilateral agreements under the MFA. India has bilateral trade agreements with the US, Canada, EEC, Austria, Sweden, Norway and Finland under the MFA. But bilateral quotas negotiated on unequal terms under the MFA were a direct contravention of the non-discriminatory provisions of GATT. There are no international rules governing the international allocation of quotas under MFA. In fact, there are no restrictions on trade in textiles among the developed countries as the MFA has been targeted only at imports from developing countries. In the dispensation of quotas to developing countries geopolitical considerations have also come into play. This has facilitated the emergence of China as a major force in the world textile and clothing market.

The bilateral restraints under the MFA incorporated a degree of flexibility in order to avoid making them unduly stringent. The flexibility provisions include 'swing' (switching of quotas among product categories), 'carry over' (use of unfulfilled quotas for the previous year as a base for exports), and 'carry forward' (borrowing against the previous year's quota). The maintenance of generous flexibility provisions is of considerable importance as they determine the extent to which exports can legitimately be increased in a product category in which demand is particularly strong. Other flexibility measures include a more narrowed down exemption for handloom and handicraft products. Its provisions for growth allowed for annual increase in imports of items under restraint being fixed at not less than 6 per cent.¹⁹ However, after the signing of MFA III, growth rates well below 6 per cent were the rule rather than the exception, especially for EEC imports.

The impact of the MFA on clothing exports of developing countries is quite complex. Some studies estimate that the

share of developing country garment exports to the OECD would at least double if world garment trade was liberalised.²⁰ In India, the economic effects of quotas have manifested in trade diversions and changing unit values. Those firms which are not certain about the availability of quotas have stalled plans for capacity expansion and market development. Developing countries were evidently hoping that the MFA would not be renewed in 1991 and would gradually be reintegrated into the GATT framework. In fact, the Uruguay round has on its agenda the dismantling of the restrictive MFA regime. In MFA IV, for the first time, there was a recognition that the final objective is the application of GATT rules to trade in textiles. MFA IV has also listed out appropriate factors for the determination of market disruption based on complete data on the various factors. If the Uruguay round succeeds at the end of the prescribed transition period, the entire textile and clothing sector will be integrated into the GATT framework. In that case, there would cease to be any prescribed quotas for any country and all countries would have to compete on the basis of factors determined by the market. India's garment export industry should gear itself up for this eventuality.

The rationale behind the formulation of the MFA, as contained in its articles, is to ensure that markets in the developed countries are not 'disrupted' by imports. While it is difficult to evolve objective criteria for defining market disruption, it is even more problematic to diagnose such a process. However, the MFA has stipulated that to qualify for a case of market disruption the damage must be explicitly attributed to a sharp and substantial increase in imports from a particular source. Moreover the imports in question need necessarily have taken place at prices lower than those prevailing in the domestic market for similar products. The nature of market disruption can be assessed by examining various factors such as the sales, market share, profits, employment and production in the domestic industry. But despite these criteria there will

always remain a considerable element of subjectivity on whether or not a country can claim market disruption.

However, what seems to have induced the unprecedented upgradation in quantitative restrictions from the mid-1970s was the issue of employment.²¹ The capital-intensive or high technology sectors of the developed countries had been subjected to very high wage increases in the 1960s and early 1970s. However, the labour-intensive industries such as clothing were finding it difficult to adjust to this high wage structure. As a result the competitiveness of the clothing in most EEC countries deteriorated considerably. The only notable exception was Italy. This led to a massive shift in employment from clothing and textile industries of most OECD countries. A smooth process of adjustment depended on the extent to which other expanding sectors of the economy were able to absorb this labour force.

TARIFFS

Over and above the comprehensive quota system established under the MFA, tariffs constituted another element of protection to the clothing and textile industries of the developed countries. The impact of tariffs on the textile and garment sectors was of a high order in the late 1950s and early 1960s. But tariff rates were subsequently reduced after a series of multilateral trade negotiations. Table 18 summarises the average levels of tariff protection for the major importing countries, before and after the Tokyo Round Negotiations (1974-79) were concluded.

An analysis of the tariff structure reveals that textile and clothing products still have the highest levels of protection *vis-a-vis* other manufactured goods. Moreover Table 19 shows that effective tariffs protecting the processing of fabrics into clothing were higher than nominal rates. This is apparent from the degree of tariff escalation associated with the final stages of the manufacturing process. So one can conclude that tariff rates on textiles in general, and clothing in particular are above the average for all manufactures.

TABLE 23: TRENDS IN VALUE OF INDIAN GARMENT EXPORTS (1985 TO 1995)

	1980	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
Value of exports (Rs million)	4,354.9	10,676.5	13,231.2	18,574.4	21,486.4	30,908.6	43,775.6	53,580.8				
Value of exports (US \$ million)	554	863	1,049	1,429	1,544	1,834	2,495	2,402				
Simulated value (US \$ million)	501	1,018	1,173	1,352	1,558	1,796	2,069	2,385	2,748	3,167	3,650	4,207

Regression equation fitted:
 $\text{Log } Y = 6.074 + 0.142t$
 (11.4)

where Y = Value of garment exports; and t = time. The figures in parenthesis indicate t-values.

The actual level of tariffs imposed by the developed countries on imports of clothing is also determined by the various preferential agreements that were in operation. Notable among these is the Generalised Scheme of Preferences (GSP) whereby some special tariff concessions were to be made available to the developing countries. But in terms of actual implementation, the GSP is of little consequence, as most OECD countries effectively exclude textile and clothing imports from GSP provisions. The only exception in this case was Japan which was the first country to meaningfully adopt a generalised system of preferences for textile and clothing imports from developing countries. During the period 1972 to 1978 Japanese imports of clothing and textiles from GSP countries increased four-fold with the result that their share in Japan's total textile imports rose from 20.5 per cent to 43.2 per cent.²² More than 12 per cent of these imports took place under duty free conditions in accordance with the GSP provisions.

With the renewal of the MFA in 1977 incorporating more stringent provisions, there occurred a widespread shift in trade patterns. First, trade among the developed countries increased relative to global clothing trade. Secondly, the operation of the MFA has induced successful developing country exporters to shift to items of superior quality that ensure higher unit value realisations. Both these factors have enhanced the role of tariffs. Nevertheless, quantitative restrictions in the form of quotas have been and will continue to be the most significant trade barriers insofar as trade in garments and textiles are concerned.

QUOTA DISTRIBUTION POLICY

The MFA has induced garment exporting countries to introduce a system of export controls and administer the quotas in systematic manner. In most successful garment exporting countries there is considerable competition for quotas and the governments of the respective countries have set up a variety of quota allocation procedures.

In India there are more than 10,000 units registered with the Apparel Export

Promotion Council (AEPC) as exporters of garments. Out of these only about 250 are manufacturer exporters. The rest may be categorised as merchant exporters which depend on other fabricating units for the actual production of garments. The AEPC undertakes the task of administering export quotas and monitoring the process of fulfilment.

The thrust of the current quota distribution policy is directed towards attaining higher unit value realisation in garment exports. This, in turn, would necessitate extracting maximum value out of the restrictions imposed by the restrained countries on the volume of global garment trade. With this end in view the new policy stipulates determination of past performance entitlements on the basis of value of exports instead of quantity. This would lead to the allotment of a higher quota for exporters realising higher unit values and would facilitate higher realisation of foreign exchange. This policy measure constitutes a significant departure from the earlier practice where the volume of exports served as the criterion. Given the fact that Indian garment exports have been fulfilling the quota limits imposed by most importing countries, the only alternative is to increase the value of exports.

CATEGORISATION OF QUOTAS AND FULFILMENT

As the bulk of our garment exports go to the restrained countries of north America and western Europe, this section analyses the nature of quotas and the extent of India's utilisation in different categories. Quota utilisation levels in the last few years have been nearly 100 per cent.

Table 20 indicates that the average quota utilisation rates fluctuate over time. Rates of fulfilment exceeding 100 per cent, arise on account of the flexibility provisions of the MFA that have been discussed earlier. As these provisions are exhausted a series of over-subscription must necessarily be followed by an under-fulfilment figure. But the EEC market was not fulfilled until 1987. In the first half of the 1980s supply rather than demand side factors have been more responsible for slack

export performance as the annual growth of 6 per cent in quota ceilings seems to have been adequate for garment exports from India. However, it has also been observed that while the aggregate quota utilisation rate may appear to be below 100 per cent, in certain categories where India has been competitive, quotas have come in the way of increased exports.

Table 20 shows that during the last seven years our quota levels in the US have been oversubscribed. The period 1987-91 also witnessed the fulfilment of our quotas in the EEC except for a minor shortfall in 1988.

Table 21 shows the annual average growth rate in quotas made available to India by the restrained countries during the period 1985-91. Although the base levels were increased in all countries over the seven-year period, the rate of growth varied considerably. The table indicates that throughout the period between 1985 and 1991, the US and Canada have been abiding by the MFA flexibility conditions of allowing for a 6 per cent annual increase in quotas. In the case of EEC, the annual growth rates permitted for clothing items have been quite sporadic. They were as low as 2 per cent between 1983 and 1986. It was increased by 15.6 per cent in 1989 and by a sharp 28.4 per cent in 1984. Thereafter, the annual rates of growth have remained low and were 3.6 per cent and 4.3 per cent for the years 1990 and 1991 respectively. For restrained countries as a whole, the annual growth rate in quota allocations to India has been in the region of a low 4 per cent to 5 per cent in 1990 and 1991. This is in sharp contrast to the liberal increases of 11 per cent in 1988 and 17 per cent in 1989.

For Indian garment exports to the US and EEC there exists a finely categorised and complex quota system. A category-wise analysis is beyond the scope of this paper. But it is worth noting that the aggregate rate of fulfilment will tend to fall if there is an increase in the categorisation or number of restrictions. This is apparently for two reasons. First, the demand for different items need not necessarily coincide with their respective quotas. Second, the scope for adjustment within a large category of items diminishes

TABLE 24: MOVEMENTS IN TERMS OF TRADE IN INDIAN GARMENT EXPORTS (1985 TO 1995)

(Unit values are expressed in terms of dollars)

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
Unit value of garment export (\$/piece)	3.37	3.49		3.89	3.85	4.16					
Unit value index (\$ base 1980 = 100)	86.0	89.0	94.8	99.2	98.3	106					
Simulated UN index (base 1980 = 100)	86.2	87.9	91.2	96.1	102.4	110.3	116.2	126	137.1	149.6	163.5
Simulated UV index (base 1985 = 100)	100	101	105	111	119	128	135	146	159	174	190
Simulated value of garment exports	1,018	1,173	1,352	1,558	1,796	2,069	2,385	2,748	3,167	3,650	4,207
UV of total imports (base 1985 = 100)	100	99	111	110	111	118	118	121	125	127	130
Gains from TOT	0	0	-1	0	1	1		4	5	8	10

shes as the number of individual ceilings increases. This may hold regardless of the extent of coverage. If the nature of categorisation remains unchanged, the rates of fulfilment of existing categories are likely to remain unaltered even if there is a rise in coverage.

IV

Unit Values and Terms of Trade

In a trade environment where an overall ceiling on quotas has had a binding effect, the volume of exports cannot be increased in a substantial manner. With more than 75 per cent of our exports going to the restrained regimes of the US and EEC, any increase in exports to these countries can come about only by improving the quality and thereby increasing the value of the garments sold. In this context, it may be observed that though we are fully utilising our quotas in almost all the countries/categories during recent years our unit value realisation is rather low. In the case of export of cotton garments to the US in 1989, the average unit value realisation for Indian products was \$ 3.50 as against a figure of \$ 4.61 for Hong Kong, \$ 4.73 for Taiwan and \$ 5.1 for Korea. If we compare India and Korea, then the differential in their respective unit value realisation rates works out to \$ 1.68 per square metre. If this differential is translated over a quota of, say 100 million square metres, this would mean an increase of \$ 168 million in export revenue.

The unit values of Indian garment exports in both rupees and US dollars have been compiled in Table 22. When unit values are expressed in Rs per piece one can observe a general uptrend from 1980 onwards with a very sharp increase between 1987 and 1991. But no uniform uptrend is discernible when unit values are evaluated in dollars owing to the steady depreciation of the rupee. A visual description of these trends in unit values is portrayed in Figure 1. In the dollar version the fitted trend resembles a parabola. On the other hand, for unit values expressed in rupees, a semi-logarithmic linear trend provides the best fit to the actual observations. However, as unit values assume significance in terms of foreign exchange realisation it would be more meaningful to conduct further analysis using unit values expressed in dollar terms.

Table 22 indicates that unit values expressed in dollars at current prices declined during the period 1980 and 1985 but have picked up since then. However, the level in 1991 is still less than the value of obtained in 1980.

The calculation of the terms of trade for garment exports necessitates the estimation of an import deflator for India's overall imports. An import deflator has

FIGURE 1: TRENDS IN UNIT VALUE INDICES
(Base 1980 = 100)

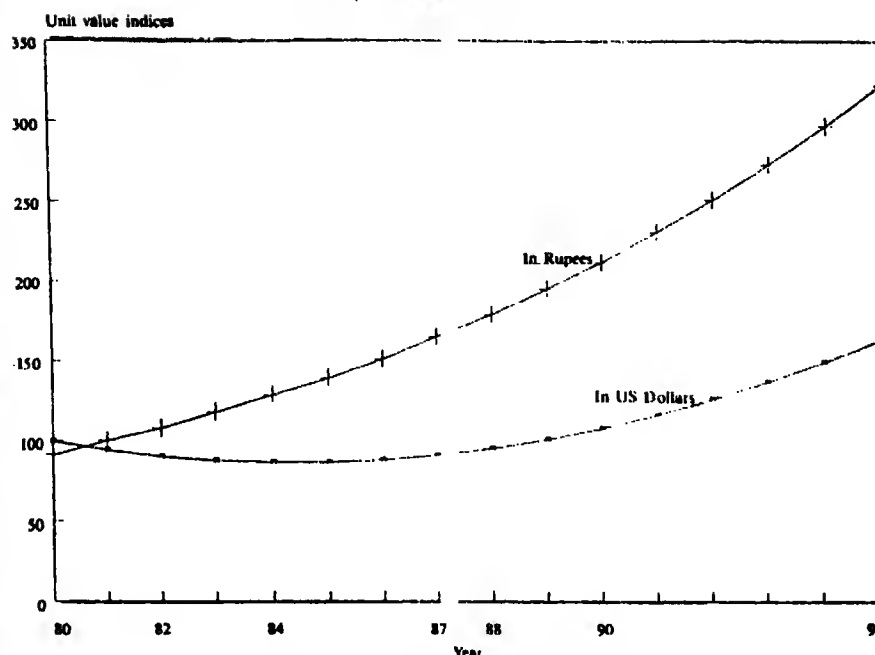
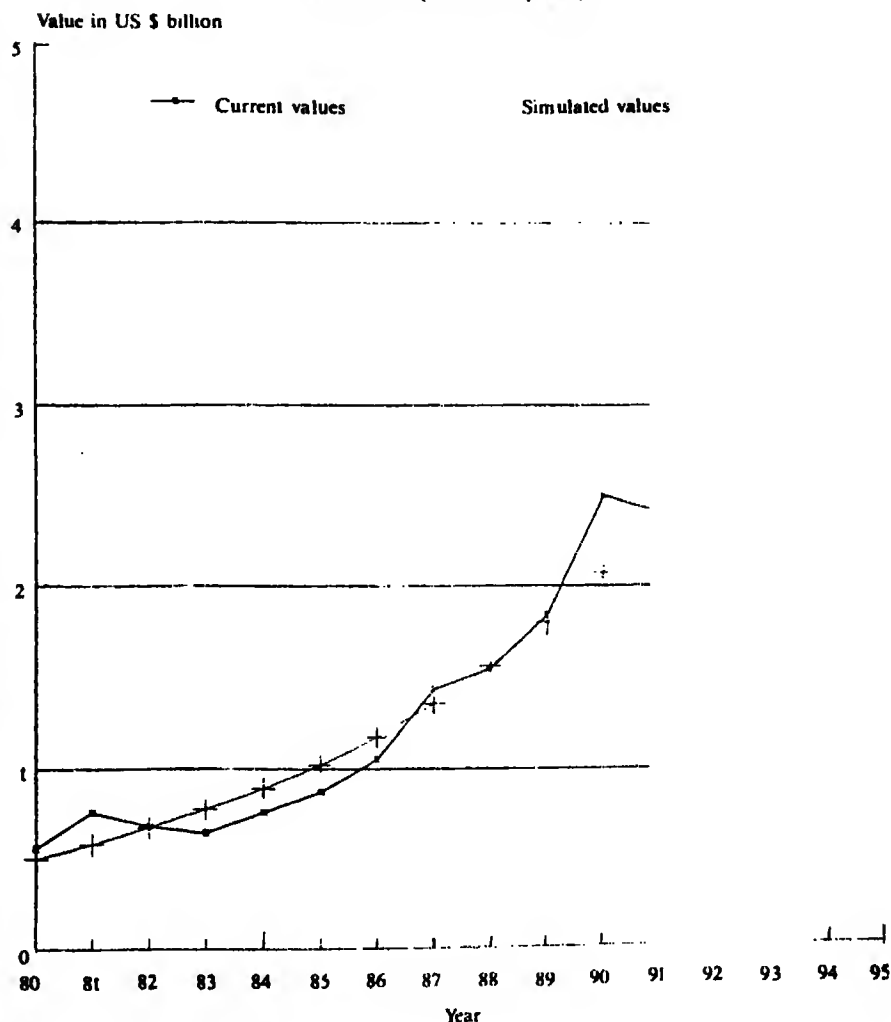


FIGURE 2: TRENDS IN INDIAN GARMENT EXPORTS
1980 to 1995 (at current prices)



been calculated using the respective weights of India's bulk imports in 1990-91. By using commodity price projections for primary imports and the Manufacturing Unit Value (MUV) index for manufactured imports an estimate of the unit value of imports between 1985 and 1995 has been derived in the Appendix.

Table 23 shows the simulated values of Indian garment exports between 1980 and 1995. These values are charted against the actual values in Figure 2. The simulated values constitute a component of the terms of trade which is being obtained according to the relation:

Gains from terms of trade	value of garment exports	value of garment exports
	unit value of imports	unit value of garment exports

Table 24 shows the movements in terms of trade in Indian garment exports where unit values are expressed in terms of US dollars. In conformity with the actual trend in the unit value index between 1980 and 1990 a regression equation of the form $Y = a + bt + ct^2$ (where Y = unit value index of Indian garment exports expressed in US dollars and t = time) was fitted to the actual values. By the method of ordinary least squares an equation was estimated with which one could obtain the simulated unit values between 1980 and 1990. The resultant equation reads as follows:

$$Y = 106.3 - 7.4t + 0.7t^2$$

(5.7) (6.8)

(The figures in parenthesis indicate t-values.)

From the findings in Table 24, it is clear that the terms of trade for Indian garment exports had turned negative in 1987 after having remained neutral in 1985 and 1986. The forecasts, however, indicate an improvement after 1991. On the average, the terms of trade have remained neutral as even the deterioration and its likely turnaround are marginal in terms of magnitude. It also seems plausible that the sharp increase in both the unit value and the total value of garment exports during the year 1990 set the trend for larger increases in the future.

A different picture emerges if one were to look at an alternative scenario where the terms of trade are evaluated in terms of unit values expressed in rupees. In Table 25 a semi-logarithmic regression equation of the form $\log Y = a + bt$ (where Y = unit value index of Indian garment exports expressed in rupees and t = time) has been fitted to the actual time series. Repeating the procedure adopted in Table 24, the simulated unit

values in rupees have been arrived at. The corresponding regression equation is as follows:

$$\log y = 4.4 + .08t$$

(12.4)

(The figure in parenthesis indicates the t-values.)

Summary and Policy Recommendations

This paper has documented the key characteristics of the Indian garment export industry. The structure of the industry itself has been influenced significantly by the nature of the market it operates in and the various government regulations which govern it, both domestic and international. India's comparative advantage in cotton has led to the predominance of garment exports based on cotton fabrics. The MFA quota regime has determined the volume of exports to the MFA countries. Conversely, given the availability of quotas in these markets, it also appears that India has been less successful in the non-quota markets. The reservation of garments manufacturing for the small-scale sector has meant that most Indian firms are small compared to their counterparts in other garment exporting countries. This is despite the fact that large firms can enter garment production with a 75 per cent export commitments. In fact most garment firms are indeed export-oriented but larger firms seem to be reluctant to enter such stringent export commitments on an indefinite basis.

The consequence of both the domestic and international regulations governing Indian garment exports has been that Indian garment exports essentially occupy the niche market of women's outerwear fashion clothing based on cotton fabrics. Moreover, a significant characteristic of these exports is that they are largely based on the fabrics made by the powerloom sector. Since small exporters have a limited volume of demand for specific fabrics for specific purposes, it is difficult for the mill sector to cater to such a demand structure. This has necessitated greater reliance on powerlooms. Short runs of specific designs with stringent quality demands typify the fabric required for readymade garments. This had deterred integrated mills from supplying fabric to garment exporters. It is possible that this industry structure would inhibit future growth of garment exports since higher growth in exports will require more standardised garments based on standardised fabrics. India presently lacks the fabric base suitable for exports as has been built up, for example, by China. On the other hand imported fabric sourced by countries like Hong Kong and South Korea are cheaper than the fabric

domestically available to Indian garment exporters. The re-orientation of our mill sector to the fabric requirements of the apparel sector will become feasible only if the apparel sector itself undergoes some restructuring.

Although India's garment export industry has flourished on account of cotton-based apparel, it should not be overlooked that man-made fibre blends account for 60 per cent of the international garment trade. India's garment exports are still focused on fashion clothing items which are characterised by rapidly shifting consumer tastes and where the degree of obsolescence is evidently high. This is not to suggest that India should desist from exporting these items just because they are volatile in nature. But it would be better for India's garment exports in the long run if these fashion garments were coupled with standard garments which are usually based on synthetic or blended fabrics. Higher value addition could be attained using a blend of man-made fibres. In India substantial capacity has already been created in the manufacture of polyester staple fibre (PSF) and polyester filament yarn (PFY). But the high input and manufacturing costs have made it virtually impossible to supply fabrics to exporters at rates that would enable them to compete effectively in the international market. The duty structure governing the intermediate inputs in the manufacture of PSF and PFY has made it impossible for these industries to be competitive. A substantial portion of demand for standardised garments, particularly men's garments, is based on synthetic or blended fabrics. For India to successfully penetrate this segment of the market, the garment manufacturers need access to high quality and competitively priced synthetic and blended fabrics. The fabric producers need access to internationally priced man-made fibres and these industries, in turn, require internationally priced raw material inputs. The size and internal efficiency of the synthetic fibre producer is now such that they can produce competitively priced fibre if their inputs are provided at international prices. This is a major issue which will determine future substantial growth of India's garment export industry.

The current high cost of synthetic and blended fabric and fibre has necessitated the availability of duty exemption schemes. Under the duty exemption scheme, the government recently introduced a value-based scheme to enable exporters to import inputs within the overall cif value of licences without any quantitative restrictions. This scheme will operate along with the existing quantity-based advance licensing scheme. The new exim policy which came into operation in March 1992 speci-

fied standard input-output norms for 1,514 export products covered by the quantity-based advance licensing scheme. Under the new value-based scheme, value addition norms for value-based licences in respect of 1,195 of such export products have been identified.

However, the garment export sector has not benefited from this new dispensation. The same meterage for import of fabrics against various garments which were permitted in the earlier policy have been maintained in the current policy. Earlier a value addition of only 33 per cent was insisted upon. Under the present duty exemption scheme, a value addition of 50 per cent is the requirement. Moreover, in the new policy all fabrics have been put in the list of sensitive items in respect of which licences shall be issued with quantity restrictions under value-based licences.

While the long-term policy should be aimed at strengthening and diversifying our domestic textile base, the short-term solution will have to centre around facilitating the import of fabrics. It would benefit the garment export industry if fabric is removed from the sensitive list in the advance licensing scheme. As a safeguard, if necessary, the advance licence for import of fabrics could be made 'non transferable' to restrict the scope for diversion by garment export manufacturers.

Another critical issue is that of reservation of the garment industry in the small-scale sector where investment in plant and machinery cannot exceed Rs 60 lakh or Rs 75 lakh in the case of ancillary units. Under the existing policy framework, garment units involving investment in plant and machinery beyond the limits prescribed for SSI units can be allowed if they undertake an export obligation of 75 per cent of their total production to GCA countries. It is important to note that this export obligation would operate in perpetuity, i.e., without any time-frame. This is to be viewed in the context of 100 per cent EOUs which have the benefit of duty free imports of capital goods and raw materials under an export obligation of 75 per cent of their production over a specified period of 10 years. An export obligation of 75 per cent in perpetuity has acted as a strong deterrent for large Indian companies to invest in the garment sector. With the liberalised foreign investment policy there is scope for substantial investments in the garment industry in specialised products. This would expose Indian garment manufacturers to the kind of technology and processing being adopted by internationally reputed garment manufacturers besides bringing in the much needed foreign equity. Our competitors like Hong Kong, South Korea, China and Taiwan have been pursuing a

liberal foreign direct investment policy. This is aimed primarily at upgrading the quality and improving the level of technology in the garment industry. It should be understood that even large garment manufacturing firms do a substantial proportion of their operations by subcontracting to smaller units. However, new technology, quality control, marketing and financial requirements make it difficult for small firms to operate successfully in many export markets.

In the context of promoting foreign investment, we should also look into the possibilities of negotiating Outward Processing Traffic (OPT) arrangements under which the fabric is imported from an EEC country and re-exported to either the same country or another country in the EEC, after due processing in a third country. At this juncture, it would be desirable to encourage some of the well known foreign garment manufacturers to invest in our garment industry by facilitating the establishment of joint ventures. But since garments are reserved for small-scale sector, such joint ventures will have to undertake a 75 per cent export obligation in case the investment exceeds the prescribed limit which it invariably will. Most foreign companies will be reluctant to invest in the Indian garment industry if obliged to undertake a 75 per cent export obligation.

It is our view that the present policy of insisting on a 75 per cent export obligation has been counter productive as it has prevented the flow of both domestic and foreign investment into the garment export sector. The investment limits in the garment export industry will have to be increased beyond the limit of Rs 65 lakh if it is to attract large investments. If we have to operate under the premise that garments will continue to be an item reserved for the small-scale sector then there is nothing much that can be done about raising the investment limit in a substantial way. In that case, the solution lies in lowering the export obligation norm from 75 per cent so as to make it more acceptable to domestic and foreign investors fixing a reasonable time frame for the same.

Given the decentralised nature of the Indian garment industry, it is necessary to ensure that those units operating within the SSI investment limits continue to receive the benefits that have been accruing to them in the past. The performance of the existing small garment exporters has been commendable. Despite great odds, they have successfully transformed this fledgling industry into a dynamic export sector. However, it must be appreciated that if India is to emerge as a global player of significance, the flow of investment to the garment sector will have to be augmented to levels which are much

higher than what they are at present.

The Indian garment export sector is characterised by a diversified 'subcontracting' system involving a number of small tailoring and fabrication units which operate under contract from a parent firm. Owing to the seasonal nature of demand for Indian garments this has proved to be a very cost-effective mode of production. But if we wish to emulate the path of the world's leading garment exporters, it is imperative to create further capacity to process bulk orders, while at the same time, retaining our advantage of being able to handle small orders with large variations. Policies will have to be geared towards introducing the large assembly line of production equipped with a good quality machinery. The new exim policy has facilitated import of machinery including second-hand machinery with export obligations at concessional rates of duty. Under the export promotion capital goods scheme (EPCG), a concessional import duty of 15 per cent would be levied on import of capital goods if the company gives an export commitment of four times the cif value of import to be achieved within five years. A concessional import duty of 25 per cent would be applicable on export commitments three times the cif value of imports, to be achieved within four years. But all these measures are likely to be rendered infructuous in the case of the garment export sector as importing machinery will, in all likelihood, entail going out of the garment export sector as importing machinery will, in all likelihood, entail going out of the ambit of the small-scale sector. This is a contradiction that needs to be resolved.

The Indian garment industry has flourished in the 1980s and now accounts for a very significant proportion of the country's exports. This paper has, however, found that it occupies only a small subset of total international trade in garments, and in only a sub-set of export destinations. Various policy changes are needed to enable this industry to expand further in a substantial fashion, both by expanding the product base and by export to new destinations, particularly non-quota countries.

Notes

- 1 Manufactured export have been defined as: SITC 5 (chemicals and related products) + SITC 6 (manufactured goods classified chiefly by material) + SITC 7 (machinery and transport equipment) + SITC 8 (miscellaneous manufactured articles) + SITC 68 (non-ferrous metals)
- 2 The Multi Fibre Arrangement is discussed in detail in a subsequent section titled 'The Regulatory Regime Governing the Garment Export Industry'.
- 3 Accurate figures for world exports of clothing after 1988 are not available.
- 4 There are two broad categories of man-made

Appendix

TERMS OF TRADE INDICES FOR PETROLEUM, RUBBER, SUGAR AND FERTILISERS

Commodity	Weight	Actual							Projections			
		1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
Petroleum (\$/BBL)	1	26.7	13.6	17.2	9.8	11.8	14.5	11.7	11.4	11.2	11.3	11.7
Index		100	51	64	37	44	54	44	43	42	42	44
Rubber (c/Kg)	1	92	95	112	93	81	70	68	66	69	73	85
Index		100	103	122	101	88	76	74	72	75	79	92
Sugar (\$/MT)	1	90	133	149	162	204	190	133	137	135	145	163
		100	148	166	180	227	211	148	152	150	161	181
Fertiliser (\$/MT)												
Urea	0.61	136	107	117	112	96	108	116	98	99	102	105
DAP	0.12	169	154	174	141	125	118	116	101	104	108	111
Phosphate Rock	0.13	34	34	31	26	30	28	29	27	27	28	28
Potassium Chloride	0.14	84	69	69	63	72	67	73	73	74	75	74
Urea	0.61	100	79	86	82	71	79	85	72	73	75	77
DAP	0.12	100	91	103	83	74	70	69	60	62	64	66
Phosphate Rock	0.13	100	100	91	76	88	82	85	79	79	82	82
Potassium Chloride	0.14	100	82	82	75	86	80	87	87	88	89	88
Urea	0.61	61	48	52	50	43	48	52	44	44	46	47
DAP	0.12	12	11	12	10	9	8	8	7	7	8	8
Phosphate Rock	0.13	13	13	12	10	11	11	11	10	10	11	11
Potassium Chloride	0.14	14	12	12	11	12	11	12	12	12	13	12
Fertiliser index	1	100	83	88	81	75	79	84	74	74	77	78

Note : Weights for different varieties of fertilisers indicate their average composition in the import basket for fertilisers in India.

Source: Compiled from 'Commodity Price Forecasts--August 1992', World Bank, International Economics Department, International Commodity Markets Division.

TERMS OF TRADE INDICES FOR EDIBLE OIL AND NON-FERROUS METALS

Commodity	Weight	Actual							Projections			
		1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
Edible Oils (\$/MT)												
Palm oil	0.47	501	257	343	315	254	199	228	255	264	230	235
Groundnut oil	0.20	905	569	500	425	562	661	601	414	422	400	423
Soybean oil	0.33	572	342	334	334	313	307	305	296	302	304	297
Palm oil	0.47	100	51	68	63	51	40	46	51	53	46	47
Groundnut oil	0.20	100	63	55	47	62	73	66	46	47	44	47
Soybean oil	0.33	100	60	58	58	55	54	53	52	53	53	52
Palm oil	0.47	47	24	32	30	24	19	21	24	25	22	22
Groundnut oil	0.20	20	13	11	9	12	15	13	9	9	9	9
Soybean oil	0.33	33	20	19	19	18	18	18	17	17	18	17
Edible oils index	1	100	56	62	58	54	51	52	50	52	48	49
Non-Ferrous Metals												
Copper	0.30	1,417	1,374	1,783	1,873	2,064	1,826	1,572	1,550	1,498	1,272	1,167
Tin (c/kg)	0.07	1,154	616	669	508	619	417	368	422	447	470	409
Nickel	0.14	4,899	3,881	4,872	9,917	9,646	6,081	5,483	4,970	4,973	4,998	5,078
Aluminium	0.26	1,041	1,261	1,608	1,836	1,414	1,125	875	857	913	1,000	934
Lead	0.05	391	406	597	472	488	556	1,375	379	378	376	409
Zinc	0.18	783	754	799	894	1,202	1,038	751	850	787	757	759
Copper	0.30	100	97	126	132	146	129	111	109	106	90	82
Tin (c/kg)	0.07	100	53	58	44	54	36	32	37	39	41	35
Nickel	0.14	100	79	99	202	197	124	112	101	102	102	104
Aluminium	0.26	100	121	154	176	136	108	84	82	88	96	90
Lead	0.05	100	104	153	121	125	142	352	97	97	96	105
Zinc	0.18	100	96	102	114	154	133	96	109	101	97	97
Copper	0.30	30	29	38	40	44	39	33	33	32	27	25
Tin (c/kg)	0.07	7	4	4	3	4	3	2	3	3	3	2
Nickel	0.14	14	11	14	28	28	17	16	14	14	14	15
Aluminium	0.26	26	31	40	46	35	28	22	21	23	25	23
Lead	0.05	5	5	8	6	6	7	18	5	5	5	5
Zinc	0.18	18	17	18	21	28	24	17	20	18	17	17
Non-ferrous metals	1	100	98	122	144	144	118	108	95	94	91	88

Note: Weights for different varieties of edible oils and non-ferrous metals indicate their respective composition in the import basket for India.

CALCULATION OF IMPORT DEFLATOR

Commodity	Weight	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
1 Petroleum	0.2504	100	51	64	37	44	54	44	43	42	42	44
2 Rubber	0.0052	100	103	122	101	88	76	74	72	75	79	92
3 Fertilisers	0.0409	100	83	88	81	75	79	84	74	74	77	78
4 Edible oils	0.0075	100	56	62	58	54	51	52	50	52	48	49
5 Non-ferrous metals	0.0255	100	98	122	144	144	118	108	95	94	91	88
6 Sugar	0.0002	100	148	166	180	227	211	148	152	150	161	181
7 Others	0.6702	100	118	130	139	138	146	149	155	161	164	169
1 Petroleum	0.2504	25	13	16	9	11	14	11	11	11	11	11
2 Rubber	0.0052	1	1	1	1	0	0	0	0	0	0	0
3 Fertilisers	0.0409	4	3	4	3	3	3	3	3	3	3	3
4 Edible oils	0.0075	1	0	0	0	0	0	0	0	0	0	0
5 Non-ferrous metals	0.02553	2	3	4	4	3	3	2	2	2	2	2
6 Sugar	0.0002	0	0	0	0	0	0	0	0	0	0	0
7 Others	0.6702	67	79	87	93	92	98	100	104	108	110	113
Total	1	100	99	111	110	111	118	118	121	125	127	130
Unit value of imports (US \$)		100	99	111	110	111	118	118	121	125	127	130
Exchange rate adjustment		12.37	12.61	13.00	13.92	16.23	17.47	22.60	29.00	31.00	31.00	31.00
		1.00	1.02	1.05	1.13	1.31	1.41	1.83	2.34	2.51	2.51	2.51
Unit value of imports (Rs)		100	101	116	124	146	167	215	284	313	318	226

Notes : 1 The six commodities are India's bulk imports of primary commodities which have been weighted according to their respective values in the import basket of 1990-91.

2 Imports that come under the category 'Others' include non-bulk imports and manufactured imports. In the absence of commodity price projections for manufactured imports a Manufacturing Unit Value (MUV) index compiled by the World Bank has been used.

3 For exchange rate adjustments, respective period averages have been used for the years ranging from 1985 to 1992. In the case of projections from 1993 to 1995 an exchange rate of Rs 31/1 US \$ has been assumed for conversion.

Sources: 1 'Commodity Price Forecasts—August 1992', World Bank, International Economics Department, International Commodity Markets Division.

2 Monthly Statistics of Foreign Trade of India, DGCIS.

3 International Financial Statistics, IMF.

fibres that compete with cotton. First, we have the artificial cellulose fibres like rayon and acetate which are produced from vegetable derivatives. The other category comes under non-cellulosic synthetic fibres and includes nylon, polyesters and acrylics which are manufactured from inorganic materials.

5 Anjali Kumar, 1986, 'India's Manufactured Exports: 1957-1980'.

6 Some special tariff concessions for developing countries were introduced in form of Generalised Scheme of Preferences, formulated in the UNCTAD, and first introduced in 1970-71.

7 Van Tho, 'Industrial Policy and the Textile Industry: The Japanese Experience', *Journal of Contemporary Business*, Seattle, Vol 11, No 1, 1982.

8 Garment trade is under restraint in only 16 countries. The non-quota markets that have remained relatively untapped as far as Indian garment exports are concerned include those in Latin America, Africa, Middle East, Far East and Australia/New Zealand.

9 See Deepak Nayyar (1973), 'India's Export and Export Policies in 1960s'.

10 The East Indian Cotton Association (EICA) has brought out a reference guide 'Introducing Indian Cotton: Higher Medium to Extra Long Staple' (undated) on this subject. Foreign cotton varieties have been compared to Indian varieties in the detailed annexures of the paper: 'Effective Incentives and Subsidies for Cotton Cultivators in India', Ashok Gulati (1987).

11 Deepak Nayyar (1976) has shown that raw cotton prices in India were higher than those in countries like Hong Kong, South Korea and Taiwan.

12 Anjali Kumar's 'India's Manufactured Exports, 1986' contains an elaborate discussion on the subcontracting system of the

Indian garment export sector.

13 The clothing units affiliated to the country's leading textile mills like Reliance, Raymonds, Mafatlal, etc. do not go in for clothing exports to any significant extent.

14 India's major garment exporting firms like Old Village Industries, Delhi, Milton's P Ltd, Bombay, Samrat Export House, Bangalore have opened retail outlets in the metropolitan cities for sale in the domestic market.

15 'Clothing-industry Adjustment in Developed Countries', Josse de la Torre, London (1985).

16 Keessing and Wolf (1980, Chapter 3) provides a detailed description of the provisions of MFA 11.

17 The World Bank Industry and Energy Department Working Paper, Industry Series Paper No 19, 'Garments: Global Subsector Study', December 1989.

18 The growth in allotment of quotas for Indian garment exports has been discussed later in a section sub-titled 'Categorisation of Quotas and Fulfilment'.

19 Keessing and Wolf (1980).

20 The World Bank, 'Garments: Global Subsector Study' (1989).

21 Josse de la Torre, London (1985).

22 Yoshie Yomezawa, 'Analysis and Evaluation of the Adjustment Process and Policies of the Japanese Textile Industry' (Tokyo: Japan Economic Research Centre, 1981).

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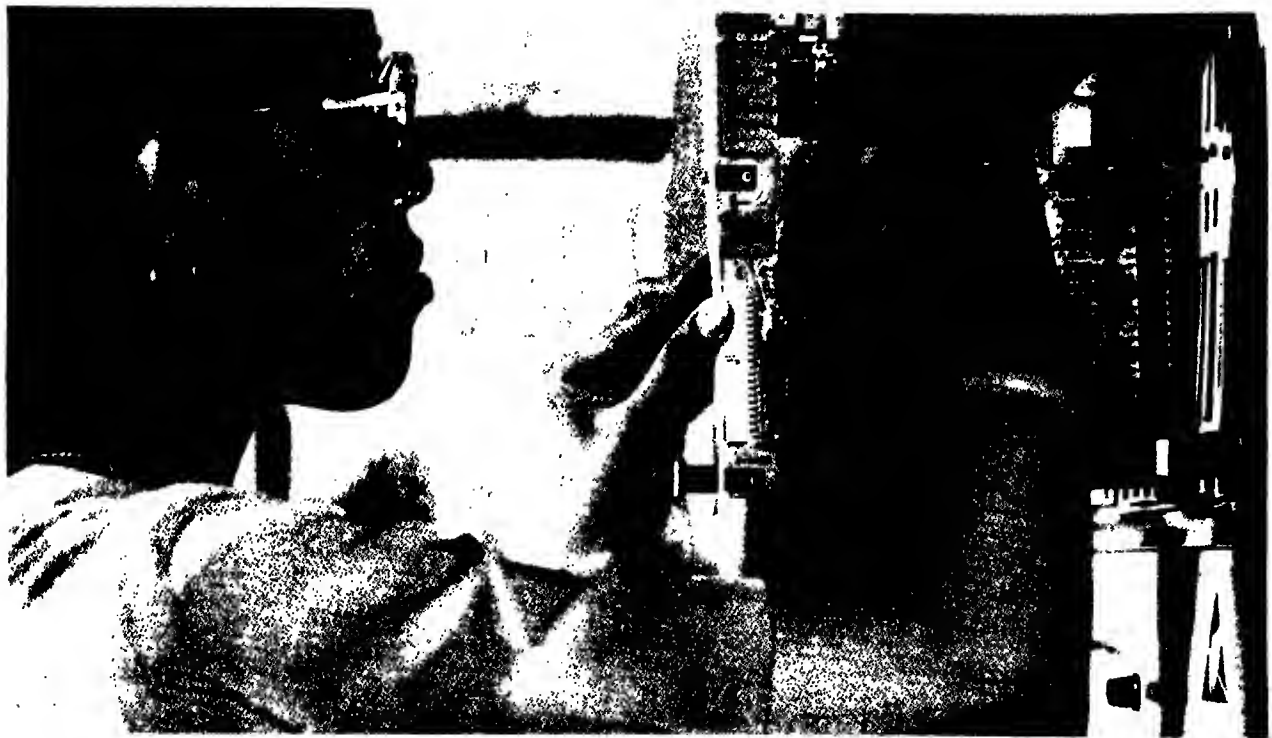
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Managerial Unionism

Bagaram Tulpule

Managerial Unionism: Issues in Perspective by Baldev R Sharma; Shri Ram Centre for Industrial Relations and Human Resources, New Delhi; pp 291, Rs 275.

BACK around the year 1947, officers in the textile mills in Bombay were organised in a trade union styled Bombay Textile Technical and Supervisory Staff Union (BTSSU). It was registered under the Indian Trade Unions Act and received an enthusiastic response from the officers. Among its active members were several departmental heads like weaving masters, and spinning masters and the vice-president of the union was an assistant general manager in a mill. The union had Asoka Mehta as president and the present reviewer as general secretary. A charter of demands was duly formulated and served on the Mill Owners Association (MOA), Bombay, by the union. The union, of course, was not recognised by the MOA and the demands were ignored since it was the policy of the MOA not to recognise any unions even of the workers. The BTSSU had only a brief life, as soon after its formation, the government of Bombay amended the Bombay Industrial Relations Act to bring within its ambit a wide range of supervisory and managerial staff in the mills and confer the exclusive right of representing them on the Representative Union for the industry under the BIR Act, which at that time (as at present too) was the INTUC-affiliated Rashtriya Mill Mazdoor Sangh.

The purpose of mentioning the BTSSU, which, incidentally, does not seem to have been spotted in Baldev Sharma's research on managerial unionism, is to stress the fact that the feeling among industrial managers that they need the protection of an organisation is by no means new. Further, even 45 years ago, they had no inhibitions about identifying their organisation as a trade union. It is also noteworthy that this early initiative was taken by managers in a large traditional private sector industry. It is also significant that the early initiative did not spread to other industries at the time and was itself short-lived. Managerial unionism as a widespread phenomenon in industry is, as Sharma brings out, a relatively recent one.

Sharma's present study covers this phenomenon comprehensively and in detail. A methodical and meticulous researcher, Sharma probes all aspects of the emergence and present scenario of officers' associations (OAs), presents, analyses and evaluates the findings of his research systematically and, wherever relevant, presents brief reviews of conditions in other countries. The genesis of and motivations behind the emergence of OAs, the nature of their activities and methods, their principal objectives, their leadership, response of government, enterprise managements and trade unions to OAs and the relevant legislation or lack of it: all such aspects are investigated carefully. The data gathered are tabulated and subjected to statistical analysis. At the end of each chapter

a brief summary and conclusions of that chapter are presented and a final chapter sums up the broad overall conclusions of the study.

Since, according to Sharma, OAs have not spread significantly to private industry, the sample for the study is drawn exclusively from the public sector. The sample is an extensive one. The 40 public sector enterprises (PSEs) selected by him cover almost all the major ones and the sample might have been larger but for the fact that some PSEs did not participate in the study. The 40 selected PSEs employ some 4 lakh persons including about 60,000 managers and supervisors. 400 members of top management, ranging from managing directors to deputy general managers, as also 210 senior leaders of trade unions belonging to 10 different central TU organisations were interviewed personally. A structured questionnaire was used to gather data from middle and junior managers and it was responded to by as many as 7,266 persons. Sharma also perused the records of the enterprises themselves to obtain information to supplement what he obtained through interviews and questionnaire.

All this elaborate and extensive exercise, however, does not seem to have yielded any startlingly new or unexpected results or conclusions. Managers form their organisations primarily because they feel that that is the best way to protect and further their interests, they feel deprived in relation to the workers as a group in matters of emoluments and power, they have some inhibitions in calling their organisations trade unions but their objectives and methods are not basically different from those of TUs, they neither seek from nor extend to the TUs of their workers much co-operation, their cultural, welfare or training activities are not extensive, they get no formal recognition from government and even when they are recognised by the management of their own enterprise, their mutual interaction is not very satisfying to the members of OAs, on the other hand, they do not meet with serious hostility from their own top management either. These are some of the broad conclusions arrived at by Sharma and anyone at all familiar with conditions in PSEs would have also predicted these. It is, of course, not Sharma's fault that the conclusions yielded by his study are not unexpected. He does succeed in conveying to the reader a clear picture of the present state of OAs in the public sector in all their aspects and that is a distinct gain.

On some points, one gets an impression of ambivalence in Sharma's analysis. For instance, he repeatedly stresses the fact that managers have little or no protection of labour legislation and that the resultant feeling of insecurity is an important reason why they form and join OAs

to protect themselves. At the same time, Sharma also recognises that in PSEs, job security for managers is almost total and that for this reason managers are not afraid that they might be victimised if they join OAs. Besides, managers of PSEs can and do seek from time to time the protection of the writ jurisdiction of high courts and the Supreme Court and this constitutes a powerful protection to managers against mala fide dismissal, in violation of principles and procedures laid down in the Service (Conduct) Rules.

In spite of Sharma's meticulous care, some errors have crept into his book. On page 28, we are told that it was during the years 1974-77 that "in steel industry, minister of steel Mohan Kumaraniangalam and steel secretary Wadud Khan invited Steel Executives Federation of India to negotiate ..." and that management of SAIL was directed to recognise SEFI. Actually, Kumaramangalam died in an air-crash in May 1973. SEFI had been granted recognition in 1971 by Hindustan Steel two years before SAIL came into being. Similarly, it is asserted on page 32 that "... 55 per cent of membership of OAs consists of senior or top management personnel". Actually, the table on the same page which is supposed to support this assertion gives not the percentage distribution of membership of OAs by rank but the membership and percentage of OAs in which the highest level of membership goes up to the levels of executive director, general manager or deputy general manager. The table on page 136 gives the frequency distribution of the number of times individual managers were promoted in their careers. But the number of promotions are not juxtaposed with the length of service of the concerned managers. Two promotions in five years would be good progress for a manager while even five promotions in 30 years would be hardly satisfactory. Since some 55 per cent of the junior and middle managers are over 40 years of age and the average age of all junior/middle managers is 42 years (Table 1, p 134) it is reasonable to assume that their average length of service is also considerable. Hence to conclude that an average of 2.5 promotions in their careers per person shows "... considerable growth in their careers" is hardly correct. In fact, while a great many characteristics of junior/middle managers have been studied and tabulated, the important characteristic of length of service seems to have escaped Sharma's attention.

From a researcher or of such insight and experience, one observation of Sharma is, to say the least, surprising. He suggests that management should encourage some senior and qualified officers to lead OAs. He does not seem to realise that such a step by management will be regarded by the generality of OA membership as an attempt by management to convert the OA into a 'company OA' and also discredit the officers concerned as management stooges.

To mention these slips is not to detract from the value of Sharma's book under review which is perhaps the first effort at a comprehensive study of managerial unionism in India.

Ageing in Kerala

S Guhan

Economic and Social Aspects of Population Ageing in Kerala, India by Leela Gulati; United Nations, New York, 1992.

RELIEF for the aged poor is a fundamental form of social security, for old age is a contingency that cannot—unlike unemployment or sickness—be prevented or ameliorated. Old age pensions are also the most expensive form of social assistance for the poor because they involve recurring payments and the proportion and numbers of the old in the total population increase in the process of development. Leela Gulati's monograph is a very useful discussion of the economic and social aspects of ageing in Kerala, where, in the whole of India, the demographic transition has progressed most. The text is interleaved with 28 tables and covers three broad themes: the demographic and familial aspects of ageing, Kerala's economic performance, and pension and health care programmes in the state.

The proportion of the elderly (age 60 plus) in the population in Kerala had reached 8.8 per cent in 1990 compared to the all-India average of 7.1 per cent. By 2021-26, population growth in Kerala will decline to less than one per cent per annum but the elderly population will be growing at around 4 per cent annually. Between 1986 and 2026, their absolute number is estimated to increase from 2.2 million nearly four-fold to 8.3 million and their proportion in the population to 18.4 per cent, somewhat higher than what it is today in developed countries. Apart from the decline in fertility and mortality which contribute to the ageing of the population, another relevant factor in Kerala is the outward migration of persons in the working age group. An important aspect of the process is the change in the ratio and pattern of the dependency of the old upon the young. The current ratio of seven working-age persons for each elderly person will decline to three by 2026. While the young-age dependency ratio (number of persons aged 0-14 per 100 persons aged 15-59) will decrease from 61 in 1981 to 37 in 2026, the old age dependency ratio will increase in the same period from 13 to 31. The gender aspects of the ageing process in Kerala are of special interest. In contrast with the rest of India, Kerala has a sex-ratio more favourable to women in the entire population (81 males for 100 females in 1986). This is accentuated in the over 60 elderly population because of higher life expectancy and the higher prevalence of widowhood among women as compared to men. In other words, there are a large number of widowed women in Kerala's elderly population and, as compared to men, their work participation ratio is much lower. One another significant feature of Kerala is that although it has a higher proportion of female-headed households (17 per cent in 1981) than all-India (9 per cent), the proportion of single-member households among

the female-headed ones in Kerala (8.9 per cent) is much lower than the all-India average (26.5 per cent). The matrilineal system in Kerala must be in part responsible for this, but it is weakening along with the phasing out of joint families as elsewhere in India.

The familial situations in which the ageing process is situated are well summarised by the author:

Young couples are torn between their responsibilities to their elders and the desire to educate and invest more in the development of their children. For the present young generation, the situation is very difficult... Increasingly, among the more affluent professional groups, younger people migrate... although the children remit funds for the support of the elderly, finance may not be the main problem, but rather loneliness and insufficient emotional support... Along with a higher age at marriage and higher levels of educational attainment, women have achieved a greater degree of equality in the marriage partnership... Also, women are more financially independent. Therefore, older family members are less able to enforce stringent social controls on the behaviour of young couples.

In such a context in which informal familial care for the elderly is under strain, state action for social security becomes important. In Kerala, as elsewhere in India, old age benefits are highly skewed in favour of government employees and workers in the organised sector of employment. In 1987-88, for instance, 90 per cent of pension payments from the state budget went to some 2,00,000 civil service pensioners and less than 8 per cent to agricultural workers in poverty who numbered about 2,60,000. The average civil service pension was 13.6 times the average pension drawn by an elderly agricultural worker. However, among the states in India, Kerala and Tamil Nadu are in the vanguard in the matter of social security coverage in the unorganised sector. In 1985-86, out of 1.9 million agricultural workers in Kerala, nearly 0.3 million or 15 per cent benefited from old-age pensions indicating, in fact, more than complete coverage of the likely proportion of the elderly in this occupational group. Kerala also has provident fund schemes for other categories of workers in the unorganised sector such as toddy tappers, fishermen, coir workers, construction workers, head loaders, and handloom weavers. According to the author's estimate, such schemes may cover workers in about half of the unorganised sector.

In 1987, the quantum of the monthly old-age pension for an agricultural worker was Rs 60. Given the availability of foodgrains at controlled prices under the public distribution system, the author believes that the amount of the pension "not only enables a

pensioner to buy his or her basic food requirements but also to have a cash income in addition to that". The exchange relation between the value of the pension and the cost of subsistence will, of course, vary over time and, unless pensions are systematically indexed to inflation, the author's satisfaction about the adequacy of the pension will not hold. Similarly, the monograph does not discuss the adequacy of old age benefits under the various welfare funds for occupational groups other than agricultural labourers; the problems in realising employers' and/or employees' contributions; the occupational categories, in number and kind, in the informal sector which are left out; and the procedural and other problems involved in obtaining effective access to benefits under the various schemes. Data relating to social security schemes in Kerala are also inadequate. Except for one year (1985-86) and one category (agricultural labourers), there is no information on the numbers of beneficiaries under different schemes and their proportion to the target groups. A couple of errors, which have crept in, also need to be corrected. I have had it confirmed by the author that the figures in Table 25 are in crore and those in Table 26 are in lakh while in both they have been denominated in millions. Some comparison with social security schemes in other states, at least in a neighbouring state like Tamil Nadu, would have been useful. Since 1989, Tamil Nadu has had a more comprehensive social security package for the unorganised sector than Kerala. Pensions, survivor benefits and maternity assistance are available in Tamil Nadu to all poor households and not confined to listed occupational groups. Let us hope that the author, who is well qualified to do so, will follow up this largely factual monograph with a more detailed and critical evaluation of Kerala's social security schemes and include suggestions for improving them.

One must also remark that the picture of Kerala's economic performance that emerges from the monograph is a truly dismal one. In 1970-80, its SDP grew by only 2.2 per cent per annum compared to the all-India rate of 4 per cent and in 1980-85 the annual growth rate declined to one per cent when the all-India rate improved to around 5 per cent. Despite low population growth, per capita incomes went up by only 0.4 per cent annually in the 1970s and declined by 0.2 per cent annually in the early 80s. Kerala's agricultural and industrial performance have been very poor, its food deficit is very large with the state producing only 40 per cent of its rice requirements and its unemployment rate, despite sizeable outmigration, is the highest in India. The so-called 'Kerala model' of impressive human development indicators—literacy, low fertility and mortality, and longevity—at a low level of income and SDP growth has been internationally acclaimed and has provided much grist to academic mills. Given, however, its abysmal economic growth, Kerala would appear to be not so much of a model as an ironic contradiction.

Strategic Trade Policy and Developing Countries

Aditya Bhattacharjee

New theories of 'strategic' trade policy developed during the 1980s challenged economists' belief in the optimality of free trade. However, influential critics soon dismissed the relevance of the new theories to practical policy, especially in developing countries. This paper argues that imports of developing countries are frequently supplied under conditions of imperfect competition, and that consequently the environment for strategic import policy exists. This is first illustrated by indirect empirical evidence, and then with reference to historical and institutional features of developing countries' import trade, reinterpreted in the light of modern theories of industrial organisation.

THE decade of the 1980s witnessed the emergence of new models of international trade that, at least initially, seemed to challenge established neoclassical theories of trade and trade policy. Based on methods drawn from the new approach to industrial organisation, which had entered that field over the previous decade, the new 'positive' trade theories offered explanations of trade patterns based on increasing returns to scale and differentiated products, both of which entailed consideration of imperfectly-competitive market structures. The new 'normative' theory of commercial policy attracted even more attention by challenging the optimality of free trade, thereby providing support to those inside and outside academia who wished to make a case for government intervention in trade. By the decade's end, however, the insights of the new positive theories had been comfortably incorporated into the orthodox factor-proportions view of trade, which it enriched and supplemented, rather than replaced [see Helpman and Krugman 1985]. As for the normative models, their leading proponents eventually agreed with their numerous critics that the 'neo-mercantilist' policy implications of the new theories were subject to crucial qualifications: that very few industries could be identified as candidates for beneficial strategic intervention; that the information required to implement the optimal policies was not available to any real-world government; and that the departures from free trade the new literature sanctioned, and the gains from such departures, were rather small, and could turn negative if several countries were to implement them. The new literature was also seen as giving an illegitimate respectability to rent-seeking activities. Free trade thus remained a practical rule of thumb to follow, even if it was demonstrably non-optimal in an imperfectly-competitive setting.¹

Throughout, the debate remained focused on trade between the industrialised 'Northern' economies. The new positive theories successfully accounted for empirical features of this trade which were inexplicable

in the prevailing factor-proportions framework, notably the size of trade flows in similar products between similarly-endowed economies. The new theories of strategic trade policy, too, seemed relevant to battles for market share between large Northern corporations backed by their governments. Few economists sought to apply the new theoretical techniques to the particular context of the less developed countries of the 'South'. Writing in 1986, Krugman [published as Krugman 1989] suggested that the task of exploring the 'Northern' applications of the new theories had temporarily pre-empted the limited supply of economists working in the field, but the situation now is not much different. Implicitly, Southern trade seemed to be adequately explained by the factor-proportions paradigm, and free trade (except for Mill-Bickerdicke optimum trade taxes for products in which they were 'large' in the world market) remained a valid prescription. It was recognised that many of these countries had imperfectly-competitive domestic markets and unexploited scale economies, but this only strengthened the case for free trade as a disciplining, pro-competitive influence.²

This paper explores the relevance of strategic trade policy to LDCs by examining the theory in relation to the characteristics of their trading environments. It applies recent theoretical innovations in industrial organisation, in order to establish the relevance of at least some of the strategic trade literature in a 'Southern' setting. It does not claim to address all the deficiencies of the theoretical literature as a guide to policy.³ What it does attempt, against the cumulative weight of received doctrine, is to argue that much of the import trade of developing countries is characterised by imperfect competition, and that consequently free trade, in Krugman's (1987) words, is indeed *passé*. I first offer, in Section I, a classification of the very diverse models in the genre of strategic trade policy, and identify the subset relevant to LDCs. Next, in Section II, some suggestive evidence of foreign market power in LDC import markets is critically reviewed.

Section III explores possible theoretical explanations for the apparent persistence of imperfectly-competitive import markets in developing countries. This involves drawing on some insights from economic history, international marketing, international law, and current issues in world trade, and reinterpreting them in the light of recent developments in industrial organisation.

I

A Taxonomy of Strategic Trade Policy Models

The new normative theories of strategic trade policy fall naturally into several classes, depending on whether market power is exercised in the home market, the foreign market or both markets. Considering this taxonomy from a developing-country perspective, one must concur with Krugman (1989), Srinivasan (1989), and Corden (1990) that few LDC firms have significant market power in foreign markets, and that therefore Brander-Spencer (1985) strategic export policies are inapplicable for these countries. Nor are their own home markets large enough to permit realisation of scale economies which would enable them to export successfully if production for the domestic market were to be promoted by protection or subsidy, as in Krugman (1984). There are, of course, exceptions to be found in the larger LDCs—Brazilian aircraft, Indian power generating equipment, Korean ships and cars—but even there, the archetypal story of 'Boeing-Airbus' export rivalry which drove most of the early literature is of questionable relevance. The home market is undeniably the arena where strategic trade policy might have a role to play in developing countries. This class of models can be further subdivided according to whether market power is exercised by home firms, foreign firms, or both, resulting in the classification of some representative papers (see table).

Each column identifies the category of models by a commonly used generic label:

I have treated the chapter titles in Helpman and Krugman (1989) as definitive for this table, although I now modify this usage for the purpose of this paper. Although Helpman and Krugman reserve the term 'strategic' to describe the interaction between oligopolistic firms of different nationalities (that is, to models in the second column), the nature of the interaction hypothesised between the home government and foreign firms justifies its application to the third column as well. 'Strategic import policy' (SIP for short) will therefore be used to describe the coverage of the second and third columns, and the discussion will be confined to this domain.⁴

The voluminous literature involving home exports will not be considered here in any detail for reasons stated above, although the modelling strategies employed by the authors will be referred to where appropriate. The strategic tariffs prescribed in the SIP literature are, in fact, immune to many of the criticisms which were levelled against the papers on strategic export policy. For example, Brander-Spencer export subsidies were shown to change sign and become export taxes if competition between the firms is modelled as Bertrand rather than Cournot, or if the number of exporting firms is large enough [Dixit 1984; Eaton and Grossman 1986]. While strategic import tariffs are quantitatively sensitive to the type of competition and the number of firms, variation of these exogenous parameters does not bring about such a reversal in the sign of the optimal intervention. The partial equilibrium framework of the strategic trade literature has also been faulted for ignoring resource reallocation effects that might, by driving up the cost of a scarce input, hurt other rent-earning sectors, and make for an overall welfare loss.⁵ Where there is no domestic production, SIP is exempt from this admonition, as well as from the warning that well-meaning trade policy might be captured by rent-seeking agents. Finally, to the extent that developing-country exports are sold competitively on impersonal global markets for primary products, there is less scope for retaliation by particular trading

partners. With most developed countries having surrendered their ability to levy discretionary tariffs by subscribing to GATT, recent strategic trade theory has shifted to issues of 'managed' trade, such as VERs, anti-dumping and countervailing duties. Developing countries, however, take advantage of loopholes such as the provisions for 'temporary' measures to correct the balance of payments and 'special and differential treatment' (Articles XVIII and XXXVI of GATT), in order to retain their right to impose traditional trade measures. The main corpus of the earlier literature now seems, if anything, more relevant to them, than to the developed countries in and for whom it was originated.

II

Empirical Evidence of Monopoly Power in LDC Imports

For strategic import policy to be more than a theoretical novelty, and to merit serious consideration by LDCs as practical policy, two empirical questions have to be answered in the affirmative. Does the world as described by these models resemble the real trading environment of LDCs? And are the rents earned by foreign firms significantly large? Although we have no direct quantitative evidence such as measures of concentration on the 'structure' of international competition, a recent paper by Yeats (1990) does provide impressive evidence of 'conduct'—specifically, spatial discrimination in pricing—characteristic of highly concentrated industries in segmented import markets. His study also indicates the presence of sizeable rents, and of the importance of historical factors in determining trade flows and market structure.

Yeats calculated the unit values of exports of iron and steel products (at the SITC four- or five-digit level of disaggregation) from France, Britain, Portugal and Belgium (separately) to their former African colonies over a 25-year period (1962-87), and compared them with the unit values of exports by the same countries to other 'non-affiliated' importing countries. He found the former colonies were paying premia which averaged 20 to 25 per cent over the period. He estimated the total cost inflicted by this overcharging, to the French colonies alone, at about \$2 billion in present value in 1987, or more than half their gross international reserves in that year. These figures are underestimates for two reasons. As Yeats notes, the premia are calculated with reference to export unit values of the *same* countries to other destinations, not from the most competitive global supplier. Second, he computes the costs of overpricing as the excess payment on the *actual* volume of imports. Had prices not been inflated, the imports,

and thus welfare, would have been higher.⁶ (That is, he does not take into account the 'deadweight loss' caused by monopolistic pricing.) In an earlier paper (1978), Yeats also found overpricing of other commodities exported by France to her former colonies. Pairwise correlations were reported with respect to various possible explanatory variables. In both papers, the degree of relative overpricing was significantly correlated positively with the share of imports coming from the three largest suppliers—a proxy for market concentration in imports—and negatively with the number of suppliers. ('Suppliers' refer to countries, not individual firms; since the iron and steel industry is typically highly concentrated in most countries, Yeats argued that this was a good proxy for seller concentration.) In the later paper, he also established negative (but weaker) correlations with the volume of iron and steel imports from France, and total imports from all sources, as indicators of demand, and argued that this suggested the presence of scale economies associated with larger shipments, or countervailing power exercised by larger importers.

This evidence has damaging implications for the orthodox theory of trade policy, based on competitive supply conditions resulting in a single exogenous world price for each good imported by a small country. Systematic price divergences of this magnitude over a quarter century indicate extensive market power, segmented national markets, and significant rents, and therefore a strong *prima facie* case for strategic trade policy by LDCs. (Yeats himself derives no policy implications.) It also calls into question the practice of using the 'world price' as a benchmark for assessing the efficiency of resource allocation, as in studies of sectoral Domestic Resource Costs and in the Little-Mirrlees approach to project evaluation.

Two other bodies of literature also offer evidence of international price discrimination. In a competitive world obeying the 'law' of one price, tariffs, exchange rate changes and transport costs would be fully passed through into prices in a small importing country. This does not seem to be universally true. Bryan (1990), after reviewing some earlier studies, provides evidence of 'freight absorption' by Canadian exporters of four commodities. The growing literature on hysteresis in import prices in response to exchange rate fluctuations⁷ also points to imperfect competition in trade. Although primarily concerned with a different set of issues, this largely empirical literature does provide evidence of the 'pricing to market' behaviour characteristic of the strategic import models. More directly relevant to this theme, Feenstra (1989) develops a 'symmetry' hypothesis, under which tariffs and exchange rate changes are both incompletely

TABLE: WHICH FIRMS HAVE MARKET POWER IN THE HOME MARKET?

Home	Home and Foreign	Foreign
'Domestic Market Power'	'Strategic Import Policy'	'Foreign Market Power'
Rodrik (1988) Saez (1990)	Brander and Spencer (1981, 1984a) Dixit (1984, 1988b) Cheng (1988) Levy and Nolan (1991)	Katrak (1977) Jones and Takemori (1989) Krishna (1990)

passed through into prices in the importing country, and successfully tests it with data on Japanese exports of trucks and motorcycles to the US.

Such incomplete pass-through of tariffs (also referred to as an improvement in the terms of trade) is the basis of welfare-improving strategic import policy. A very crude econometric exercise for Indian imports has been undertaken by Mehta and Nambiar (1988). They regress unit values of manufactured exports to India of major supplying countries (relative to their unit export values to the rest of the world) for four-digit product categories, on Indian tariff rates. Both in cross-section (across product categories in 1984) and time series (for select commodities from 1977 to 1984), the relationship between relative export prices and tariff rates was predominantly negative. The inverse relationship was strongest for commodities not subject to quantitative restrictions; for those whose supply was concentrated in a small number of countries; and those for which imports constituted a larger share of domestic consumption. (These last three results were obtained by an even cruder method: correlating changes in tariff rates with changes in relative export unit values between 1980 and 1984.)

Although the results of the papers summarised above are consistent with the implications of the theory of SIP, those most directly relevant to developing countries suffer from serious problems in respect of the data and the statistical procedures used. As the authors acknowledge, SITC categories, even at the most disaggregated level, are fairly heterogeneous. Further, they use either pair-wise correlation (Yeats) or univariate regression (Mehta-Nambiar) to explain a phenomenon which Yeats' evidence shows to be influenced by several variables, some of which are interdependent (market size and the number of trading contacts, for example). The use of alternative statistical tests and more disaggregated data is the subject of ongoing research.

III

Market Structure and the 'Persistence of Monopoly' in Trade

All the theoretical papers under the 'strategic import policy' rubric postulate either pure monopoly (a foreign firm), or oligopoly (usually one foreign and one domestic firm). But why do not the foreigners' rents, whose shifting to the home firm or government is the rationale for intervention, attract entry? Small market sizes characteristic of LDCs help to explain a small number of domestic firms: the extensive empirical literature on this is summarised in Lee (1984: 66-75). But why assume a limited number of foreign firms (in most papers, just one)? Evidence of high concentration ratios, which

are invariably calculated from data on domestic production or sales, says nothing about foreign market power. Barring a few obvious exceptions (wide-bodied aircraft, supercomputers, supertankers), there are several suppliers around the world for most manufactured products—and certainly for any product a developing country might be capable of producing, unless it is based on a specific local raw material or skill. And even though not all firms may actually supply every country where demand exists, their existence should render the market of any particular country almost 'perfectly contestable'.⁷ Yet the evidence presented in the previous section points to considerable market power in international trade, even for standardised goods which are widely produced. Before adding more oligopoly models to the literature, therefore, one should seek to understand entry barriers that might explain this 'persistence of monopoly', and if possible incorporate them into the modelling exercise. Of the numerous surveys of the strategic trade literature that have been written, only Harris (1989: 758-59) makes this point.

What kind of barriers sustain foreign market power? It turns out that exports from more to less developed countries ('North to South' trade) in particular are characterised by a number of institutional features which provide answers to this question. Yeats (1990: 12-13) mentions a few, but his sources are dated (all published before 1978) and largely confined to Africa. The rest of this section extends this argument geographically and historically with additional evidence, seeks to relate it to industrial organisation theory, and finally assesses its continued relevance in the context of a changing world economy. The first two subsections seek to explain why competition in some LDC import markets is limited to a few countries, while the next three show how particular firms may acquire monopoly power in an LDC market. A central theme is how temporary monopoly power obtained under a variety of institutional arrangements can be perpetuated through actions taken by the firm. This analysis modifies the conventional way of looking at international trade in order to accommodate some recent insights from industrial organisation theory. It is spelled out in the first subsection, although it is relevant to the next three as well.

(1) THE COLONIAL LEGACY

Yeats' evidence related specifically to exports from European countries to their former colonies. A reading of economic history shows that these countries sought to maintain preferential access to colonial markets for their own exports, effectively limiting entry by firms from other countries. This was ensured by discriminatory protec-

tion, as well as policies favouring the parent country for procurement of supplies by the colonial administration. These externally-imposed restraints on trade were tightened during the 1930s as countries strove to retain their markets:

During the 1930s and 1940s there was a marked movement away from free trade and laissez-faire. France's African possessions were locked more tightly into the French trading system, and trade with France rose from 40 per cent of their total trade in 1900 to 75 per cent in 1935-60. Britain's introduction of imperial preferences in 1932 had a similar effect [Reynolds 1985: 207].

The lasting effects of this 'enforced bilateralism'⁸ was quantified by Kleiman (1976). He showed that in 1960-62, European countries had shares in the trade of their dependencies which were much higher than their shares in the trade of all developing countries. For imports by the dependencies, the ratio between these shares was as follows:

United Kingdom	3.0
France	7.8
Italy	11.7
Belgium	15.2
Portugal	73.4

Source: Kleiman (1976), Table 2, p 463.

The artificial preferential and exclusionary effects of colonial trade regimes is highlighted in a comparison of the import patterns of the British and French dependencies. Of the British dependencies' imports, 38.9 per cent came from the UK, but only 2.3 per cent from France; conversely, France had a 60.5 per cent market share in the imports of its own dependencies, but only 2.8 per cent in those of the British dependencies [Kleiman 1976: 465, Table 3]. Kleiman's study showed that the bias in trade patterns usually declined after attainment of formal independence, especially in the French dependencies, but remained perceptible even two decades later. Yeats (1990: 16-17, Appendix Table 1) confirms the persistence of this bias for the French dependencies with data up to 1985.

This continuation of distorted trade patterns into the post-colonial era was facilitated by 'reverse preferences', whereby the former colonies continued to give preferential access to a somewhat wider set of developed countries. (They did, of course, obtain similar access to the market of their developed-country partners, but since the ex-colonies' exports consisted mainly of competitively-produced primary products, they were not characterised by the kind of market power I am concerned with.) The major arrangements were Commonwealth Preferences, which succeeded the system of Imperial Preference set up by the Ottawa Agreements of 1932 between Britain and her dominions and colonies; the Yaounde Con-

vention (1963) and the Arusha Agreement (1968), giving duty- and quota-free access to exports from the EEC to nations of Sub-Saharan Africa, principally Belgian and French ex-colonies. (Similar agreements were reached between the US and Venezuela and the Philippines, and between the EEC and Turkey, Israel, Morocco, Spain and Tunisia in the 1960s.)⁹ These arrangements were phased out in the 1970s, and the 1975 Lomé Convention contained no reverse preferences for the enlarged EEC in the markets of the African and Caribbean signatories. The GATT principle of non-discrimination seemed to have triumphed. Yet the evidence reviewed in the previous section suggests that price discrimination characteristic of limited competition was widespread in the 1980s, with the former colonial countries retaining their market power, and competition between firms in these countries seemingly weak or absent.

This puzzle can be resolved with the help of industrial organisation theory, in the spirit of Kreps and Spence (1985). They asserted the importance of modelling 'history' (in the sense of firms' previous behaviour) to explain present industry structure and firms' beliefs, especially in 'immature', evolving industrial structures. This is the approach used here, with somewhat broader interpretation of 'history'. During the colonial epoch, country-specific monopoly positions translated quite readily into firm-specific market power.¹⁰ In West Africa, for example,

[w]ithin the European merchant class there were numerous mergers and failures of smaller firms, which by the 1920s had produced a tight oligopoly with two dominant British firms and one major French firm. The larger firms could afford to establish more branches in the interior, to finance large inventory holdings, to withstand trade fluctuations, and to take advantage of vertical integration with manufacturing and shipping concerns. [Reynolds 1985: 206; the colonies specifically referred to are the Ivory Coast (French) and Nigeria and Ghana (British).]

The hypothesis to be developed below is that firms based in the countries with preferential access obtain first-mover advantages which are not reversed when the preference is abolished; market power thus resides in firms, not exporting countries. The advantages listed by Reynolds are well known barriers to entry in various branches of the industrial organisation literature. Other advantages in this context would include knowledge of market conditions, consumer preferences, local languages and cultural practices, government regulations, banking and currency systems, as well as customer goodwill and personal relationships with importers, distributors and officials. While trade in economists' models is visualised as taking place in impersonal auction-type mar-

kets, where customers can buy all they want at a unique 'world price', the international business marketing literature emphasises the importance of sales effort, which is facilitated by such personalised advantages. The influential work of Michael Porter [most recently, Porter 1990], for example, asserts the importance of continuous innovation in the 'value chain' of a firm's activities, which includes market-specific product design and distribution strategies. Porter holds these to be far more important than factor endowments in explaining what he calls a country's 'competitive advantage'. At a more practical level, a recent primer on doing business in developing countries [Cavusgil and Chauri 1990] emphasises the importance of being acquainted with differing attitudes to time, non-verbal communication, gift-giving, status, and even colour preferences in different cultures.¹¹ And in a recent front-page article in the *New York Times*, the growth of American exports is attributed as much to the 'growing wordliness and *savoir-faire*' of American companies, as to productivity increases and the weakness of the dollar [Nasar 1991: A1]. The article quotes a senior executive: 'US companies have found out how to do business overseas... Exporters have room to grow just by becoming more proficient in how to sell, how to distribute, how to speak the language.'

Such fixed costs of entering individual national markets have until recently remained unrecognised by conventional trade theories. The literature on exchange rate induced hysteresis in import prices has acknowledged the role of such sunk costs, but it has treated them as exogenous. The expenditures referred to in the previous paragraphs can be regarded as 'investments'. Already made by incumbent firms, but not by potential entrants, they serve to deter entry in the manner of Dixit's (1980) model. Dixit was implicitly concerned with investment in productive capacity. The 'assets' created by the kind of investments described above, however, are largely in the form of specific human capital which has no alternative use in other markets, is likely to have a much lower value outside the corporate firm, and is inherently non-depreciating. They are therefore largely sunk from the perspective of the incumbents, making such investments a more effective entry barrier. Some of these expenditures can also be regarded as endogenous sunk costs, which can be escalated as the market grows. As Sutton (1991) shows in his recent book, this preserves market concentration in a wide range of model specifications, and is borne out by cross-sectional econometric evidence as well as industry case studies. (Sutton concentrates mainly on advertising, but the sales expenditures listed in the previous paragraph are qualitatively similar.) Although the role of first-mover advantages is

not as theoretically robust across models, his empirical studies suggest (see particularly Chapter 9) that institutional conditions which temporarily favour an early entrant do translate into long-term market dominance even after they lapse, especially in smaller markets. It is possible for the identity of the dominant firms to change over time as the first-movers are ultimately displaced by new innovators who can enter with a production cost advantage large enough to cover entry costs, while market concentration remains high. Stiglitz (1987) shows in a simple model how a market can be monopolised by a succession of different firms. Grossman and Helpman (1991) apply a similar idea to vertical product differentiation, with firms at the top of the quality ladder exercising temporary monopoly power until overtaken by new innovators, who in turn have this power until they are overtaken.

This vision of competition, applied to international trade, implies that a national market is not contestable. Even after a non-discriminatory import regime is restored, it may be unprofitable for new suppliers to penetrate the market, especially if it is small and (post-entry) competition promises to be intense, as both the contestability literature and traditional trade theory believe it is. Hysteresis may then occur in market shares. (These fixed costs of market development may even create a natural monopoly situation, in this case due to cultural or institutional rather than technological factors.) This is consistent with Yeats' evidence that prices were inversely correlated with the number of trading contacts, which in turn were positively correlated with import volumes. In the longer run, the identity (and nationality) of the dominant firms may change in line with evolving comparative and competitive advantage, but the degree of concentration may, as Sutton demonstrates in a domestic setting, have a lower bound. The imperfectly-competitive trading environment suitable for strategic import policy can thus survive despite (in fact, is facilitated by) intense price competition. The 'rational' tariffs this justifies, while possibly encouraging import-substituting domestic entry, further reduces the profitability of the national market and its attractiveness to new foreign entrants. Strategic import policy can thus be self-sustaining.

The first-mover advantage may also be utilised to deter entry in other ways, such as by limit-pricing [Brander and Spencer 1981]. Alternatively, in the case of exports of capital and intermediate goods, establishing a technological complementarity which requires relationship-specific investments by the downstream importer could also perpetuate the first-mover advantage and set up a captive customer for repeat orders, spares and tied sales.

(II) SOURCE-TYING OF FOREIGN AID

Yeats also notes that the industrial countries' aid to LDCs is often tied to the procurement of designated goods from the donor country. These are usually capital goods, whose production is highly concentrated in most countries. This gives market power to the supplying industries, despite the existence of potential rivals in other countries. A recent survey by Jepma (1991) reviews a number of studies and official reports over the last three decades that provide ample evidence of considerable overpricing of exports paid for by source-tied aid.

Both tied aid and the legacy of reverse preferences, of course, only explain why certain countries have market power protected by entry barriers in particular LDC markets. There may be many firms in each such supplying country, providing effective competition.¹² However, exports tend to be more concentrated than domestic sales,¹³ and collusive behaviour between these firms is quite possible. Various institutional arrangements which facilitate this are reviewed next.

(III) EXPORT CARTELS

International cartels in manufactured products or services, which were common and unconcealed until the second world war, have been discussed relatively little since then. Casson (1985) has argued that horizontal integration in the form of multinational corporations has largely superseded cartels of independent producers, because MNCs possess several advantages in maintaining a collusive outcome. International cartels, according to him, remain important in industries such as aviation and shipping, which for political reasons are not open to foreign investment in most countries. Vigorous anti-trust measures by American and European authorities against international cartels have also deterred their activities. However, evidence compiled by Mirow and Maurer (1982) indicates that manufacturing cartels remained active, although covert, at least up to the 1970s, notably in electrical equipment, chemicals, steel and fibres. They were known to assign exclusive territories (colloquially known as 'hunting grounds') to their members on the basis of historical relationships with particular countries, thereby perpetuating the exclusionary effects of colonial trading arrangements. Other anti-competitive activities included market-sharing and price-fixing agreements, co-ordinated bidding on tenders, cross-licensing of patents, and predatory pricing or refusing to deal in order to force the exit of smaller firms, especially in LDCs.

The focus here, however, is on collusion between firms in a single country in their export dealings. This kind of cartel should

be easier to co-ordinate, since there is likely to be a smaller dispersion of costs (which would also have the advantage of being expressed in a common currency), making the allocation of output or markets among members easier. Social and cultural affinity between members, and government co-ordination, would also strengthen a national cartel.

Legal practice in almost all developed countries supports the formation of such cartels.¹⁴ In the US, the Webb-Pomerene Act of 1918 gave limited exemption to 'export associations' of American firms from anti-trust laws in regard to their export business. This was extended and largely superseded by the Export Trading Companies Act of 1982, which shields from anti-trust action any conduct covered by a certificate of review obtained in advance from the Secretary of Commerce. Examples of anti-competitive conduct which have been certified include 'joint ventures' to set quantities and prices and to allocate markets, and exclusive sales agreements—all of which would be illegal *per se* if practised in the American market. The Foreign Trade Anti-trust Improvements Act (1982) amended sections of the Sherman and Federal Trade Commission Acts to make them inapplicable to exports, unless the conduct had a directly harmful effect on domestic commerce or imports, or on another exporter.¹⁵ Similar provisions have long been incorporated into the anti-trust laws of all leading industrialised countries.¹⁶ During the 1980s, in fact, cartelisation measures (production quotas and reference prices) were initiated under the Davignon Plan for the European Community's troubled steel industry. Outside the developed countries, export cartels with government sponsorship have been involved in restraining competition among Taiwanese firms [Wade 1990: 143-44, 205-06].

From the perspective of importing countries, international law recognises so-called 'foreign sovereign compulsion' as an adequate defence in anti-trust actions against foreign firms: anti-competitive behaviour at the behest of a foreign government cannot be legally challenged. In any case, few LDCs are in a position to enforce their anti-trust laws (if they have any) against foreign firms. American and European authorities have done so, claiming extra-territorial jurisdiction on the basis of the 'effects' doctrine, whereby an action can be challenged in the territory where it has an effect, even if it is initiated elsewhere by non-residents.

(IV) TECHNOLOGICAL MONOPOLIES

In contrast to the earlier explanations, a patent for the production of a particular good can give a world-wide monopoly to an individual firm. An early assessment of the international patent system by O'Brien

(1974) quite clearly lays the groundwork for an analysis along these lines. His review of patent data revealed that

[a]t least five-sixths of patents in developing countries are in foreign hands, mainly transnational corporations ... At least 95 per cent of patents in developing countries are never used and serve as a block to domestic production while increasing the market power of foreign corporations. Those patents actually in use impose substantial costs both through 'transfer pricing' and restrictive clauses in licensing agreements.

Like scale economies and imperfect competition, the role of regionally concentrated technological innovation in explaining trade patterns was neglected in formal theoretical models for many years, despite recognition of its empirical importance. It was first conceptualised, in the form of stylised description, in Vernon's (1966) product-cycle theory. Krugman's pioneering paper (1979) provided the first formal treatment of the issue. A 'northern' monopoly in innovation creates a north to south flow of new products; the new techniques are continuously diffused to the south with a lag, creating a reverse flow of exports to the north. Both innovation and imitation were treated as exogenous, and production and trade were modelled as perfectly competitive. This was oddly incongruent with the inherently non-competitive implications of innovation. Implicitly, therefore, new techniques were diffused widely and instantaneously throughout the north, but somehow reached the south only with a lag. Regrettably, technological monopolies played no role in Krugman's later work on market structure and foreign trade. A very recent and ongoing research programme initiated by Grossman, Segerstrom and various co-authors¹⁷ represents a major theoretical advance, in which the Vernon view of trade is modelled more satisfactorily. Both innovation and imitation involve costly outlays and, if successful, give the firm a temporary monopoly. This literature is concerned with modelling the effect of trade policies on endogenous long-run growth rather than rent-shifting, but it does refocus attention on inherently non-competitive 'technology gap' views of trade. Monopoly power in these models is limited by the existence of earlier vintages of products on the quality ladder, and is continuously being undermined, in Schumpeterian fashion, by the next generation. The imperfectly-competitive situation the strategic trade literature deals with can then be seen as a temporary conjuncture in this evolving picture.

A monopoly situation also arises when a technology licensing agreement includes a tying clause, requiring that inputs be purchased exclusively from the licensor. This is similar to the source-tying of aid, except that it creates a pure monopoly for an indi-

vidual firm. This then could also account for monopolistic elements in north-south trade.

(V) MULTINATIONALS, INTRA-FIRM TRADE AND TRANSFER PRICING

Exports from one branch of an MNC to another are inherently not subject to competition, and the transfer prices at which such trade is carried out are determined more by the need to reallocate profits between different national jurisdictions than by market forces. This is usually driven by differences in tax rates, labour union pressures, and restrictions on repatriation of profits or royalties.¹⁸ Although traditionally a subject of concern mainly to LDCs who played host to MNC branches, this has recently become the focus of a Congressional inquiry into the pricing behaviour of foreign, particularly Japanese, firms in the US [Elving 1990]. (Intra-firm shipments by MNCs accounted for 31.5 per cent of US exports and 36.6 per cent of imports in 1982 [Hipple 1990].)

CONCLUSION: INTERNATIONALISED IMPERFECT COMPETITION IN RETROSPECT AND PROSPECT

The close nexus between the growth of concentration in the leading industrial countries, the internationalisation of capital, and the exercise of government power to create and safeguard monopolistic privileges abroad—the institutional prerequisites for the modern theory of strategic trade policy—was emphasised decades ago in Marxian, structuralist, and 'dependency' writings.¹⁹ However, this literature did not deal with the details of rivalry at the level of firms. In particular, it could not provide a convincing explanation for the existence of firm-level monopoly power. (Nor did it give much attention to possible policy options for the 'dependent' countries of the 'periphery', most of which had limited sovereignty over their tariff policy at the time.) In the preceding subsections, I have tried to deploy some of the insights of modern industrial economics to address this problem, while retaining the historical and institutional sensitivity of the earlier literature.

Some recent and ongoing developments in the world economy suggest the continuing relevance of some of the themes developed above, although the ensuing discussion is necessarily very speculative. Market power based on proprietary technology is entering a new phase, with very significant innovations in biotechnology, materials science and micro-electronics²⁰ now emerging as commercially viable. These are concentrated in the major industrial economies. Contemporaneously, there were strong pressures on LDCs to strengthen their protection of foreign patents at the recent Uruguay Round of GATT negotiations, with Trade Related Intellectual Property Rights (TRIPs)

emerging as a major bone of contention. Several measures advocated in the Dunkel draft agreement substantially strengthen the rights of patentees relative to the Paris Convention and national patent laws of many countries. The proposals most relevant to my thesis include extension of patent protection to products hitherto excluded by many national patent laws, especially micro-organisms and plant varieties; protection of products rather than processes; lengthening the duration of patent protection; and restriction of the conditions under which compulsory licensing is required for a patent which is not worked in a particular national territory. This last development is especially germane to my theme, since one of the modifications would make importation of the protected product deemed as working of the patent and therefore grounds for denial of a compulsory license.

Another subject of debate at the Uruguay Round concerned Trade Related Investment Measures (TRIMs), which would ease restrictions on investment by multinationals and ensure equal treatment with domestic firms. These can be viewed as a prospective means of perpetuating one of the sources of monopoly power identified above, and constraining host countries' ability to implement schemes to mitigate the effects of transfer pricing. Finally, the principle of non-discriminatory trade is threatened by increasing bilateralism and regional free trade agreements. If this is extended to agreements between countries at very different levels of development (e.g. the proposed Mexican-American trade pact, or the integration of the Eastern European economies into the EEC), it could go some way towards reproducing the 'reverse preferences' of an earlier era, and possibly limit the sources of import competition in some LDC markets. None of this is intended as an indictment of these trends; I am concerned only with their 'positive' implications in reproducing the various features of the world economy that permit monopoly power to survive.

Similarly, the design of optimal policies for the various cases of imperfect competition has remained beyond the scope of this paper. Just two remarks are worth making in this context. First, while the literature has concentrated on orthodox tariffs, a two-part tariff, including a lump sum component, would be superior for extracting rent [Srinivasan 1989]. Secondly, empirical estimates of optimal tariffs [see the survey in Levy and Nolan 1991] put them well below 20 per cent. The 'new' protectionism does not, therefore, militate against the reduction of the inordinately high tariff rates prevalent in many LDCs. As Levy and Nolan note, the older infant-industry argument remains the basis for any justification of high rates of protection.

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Notes

1 This seems to be the consensus emerging from Dixit (1986) and Krugman (1987) among the pioneers of theory of strategic trade policy, and Bhagwati (1989), Srinivasan (1989) and Corden (1990) among its detractors.

2 This was the view taken by Krugman (1989) and Rodrik (1988), who were the first to address the implications of the new theory to LDC trade strategy. They were followed by pioneers of the traditional theory of intervention in the presence of distortions—Bhagwati (1989), Srinivasan (1989) and Corden (1990)—who were even more sceptical of any interventionist implications of the new theories.

3 In particular, the problem of inadequate information is not addressed. Given the powerful tools developed in the field of information economics in recent years, lack of information is not in itself a sufficient excuse for ruling out carefully considered recourse to strategic trade policy. See Bhattacharjee (1993) for some attempts in this direction.

4 Analysis of 'domestic market power', or of the effect of competitively-supplied imports on imperfectly-competitive domestic markets, is fairly straightforward. Existing empirical simulations of strategic trade policy for LDCs [Rodrik 1988; Saez 1990] are confined to this case.

5 Dixit and Grossman (1986) formally establish this in the context of 'picking winners' for Brander-Spencer export subsidies.

6 See, for example, Krugman and Baldwin (1987), Knetter (1988) and Marston (1991).

7 The contestability of import markets has been recently advanced by Baumol and Lee (1991), in support of trade liberalisation by LDCs.

8 The term was coined by Myrdal (1956: 284-88).

9 The preceding information is drawn from McIntyre (1974).

10 I am referring here to the late colonial period, that is, long after the abolition of the monopoly trading charters which directly created and preserved firm-specific market power in the mercantilist era. For an interesting reinterpretation of the behaviour of the chartered trading companies of that period in the framework of the Brander-Spencer (1985) strategic export model, see Irwin (1991).

11 In an interesting cross-country experiment designed to test game-theoretic predictions of bargaining and market behaviour, Roth et al (1991) found that while the results of experimental auctions rapidly converged to the predicted outcomes in subject groups from four different nationalities, the results of bilateral bargaining games diverged significantly both from theoretical predictions and across countries. This, the authors suggest, indicates that culture-specific differences in what constitutes acceptable offers are important in determining outcomes in a bargaining context. To the extent that international trade takes place

in a similar setting, one would expect similar price dispersions to occur.

- 12 Tied aid can, however, also serve to set up a firm-level first-mover advantage whereby monopoly power is perpetuated by technological complementarities and switching costs, as mentioned above.
- 13 This is empirically demonstrated by Doi (1991) for Japan: the share of the top 50 exporting firms (who constituted about 2 per cent of the total number of exporters) rose from about 50 per cent of total manufactured exports in 1970 to about 60 per cent in the early 1980s, far exceeding concentration with respect to total sales, where the share of the top 50 manufacturing firms remained about 20 per cent. Doi also cites earlier studies which showed that American and British exports are similarly more concentrated than their respective domestic market structures. This is consistent with the hypothesis that entry into foreign markets entails additional fixed costs.
- 14 This paragraph is based on Chapters 1 and 3 of Vogelson, Crandall and Thomas (1988), and a study commissioned by the Organisation for Economic Co-operation and Development (1984).
- 15 Brander and Spencer (1984b) and Dixit (1984) show that the welfare implications of cartels in an exporting industry involve a trade-off between its adverse effects on consumers' surplus in the domestic market and favourable effects on profits earned in export markets. (As the discussion in the text shows, this seems to have been a consideration in the qualified antitrust exemptions given to exporters by most industrial countries.)
- 16 See Organisation for Economic Co-operation and Development (1984: ch 1) for a somewhat dated compilation of these provisions. This report also presents the limited official evidence of membership in export cartels, obtained from voluntary notifications by the firms in the handful of countries which require it. It also notes that cartels seem to be giving way to other arrangements which are more conducive to collusion, such as multinational corporations, joint ventures, and trading companies.
- 17 See in particular Grossman and Helpman (1991), Chapter 12, and Segerstrom, Anant, and Dinopoulos (1990), Dosi, Pavitt and Soete (1990) model technologically-determined trade in a non-neoclassical framework.
- 18 The papers in Rugman and Eden (1985) provide a comprehensive treatment of the rationale, mechanics, and regulation of international transfer pricing, as well as empirical evidence from developed and developing countries.
- 19 References to this voluminous literature would unnecessarily inflate the bibliography. However, it is worth drawing attention to Rudolf Hilferding's *Finance Capital*, first published in 1910. Progenitor of Marxian theories of imperialism, this neglected classic contains a treatment of tariffs under imperfect competition that is decades ahead of its time. It develops an analysis that resembles Krugman's (1984) model of import protection as export promotion, leading to a discussion of tariff-jumping direct foreign investment, imperial preference and source-tied credits. See Hilferding (1981), Chapters 21 and 22.
- 20 Characteristics of the new micro-electronics-

based technologies which promote concentration include: greater flexibility in supplying different products from the same production unit; closer integration with basic research, design capability and marketing; and the lock-out effect of dominant standards and network interfaces [Ernst and O'Connor 1989: 22-25]

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Family Size, Outcomes for Children, and Gender Disparities

Case of Rural Maharashtra

Shireen J Jejeebhoy

This article explores the linkages between family size and such outcomes for children as educational attainment, work, and future expectations, in rural Maharashtra, using sample survey data for currently married women aged 25-44 in 1983-84. The results suggest that while the most important determinants are parental education and economic status, family size has a consistent effect on the situation of children and their gender roles in particular. The situation of daughters in small families continues to be unchanged and in some ways worse: They are no more likely to be educated than those in large families and with the shrinking labour supply of sons, shortfalls are taken up by daughters, and especially older daughters, who, at the cost of securing an education, now spend considerably more time than both girls in large families and their brothers in small families in working in non-domestic activities.

THE argument in favour of small family size is all too familiar. Given limited resources, the pie can be divided among fewer people and more of whatever it contains—health, food, education, leisure—can be expended on each child. Thus, the shift from large to small families is expected to improve the quality of life of subsequent generations in terms of better health, nutrition, and education and fewer labour demands. A recent study in Thailand [Knodel et al 1991], one of the few of its kind designed specifically to assess this relationship, has confirmed empirically that family size is an important determinant of how much schooling parents provide for their children.

Empirical evidence on this issue in India is sparse. The little information that exists does offer support to the hypothesis that children in small families are better off in a variety of ways. Children in small families are apparently better nourished, healthier, and have better survival prospects than those in large families—even when economic levels and living conditions are similar [Rao and Gopalan 1971; Prahlad Rao 1980; Vajpayee and Govila 1987; Santhanakrishnan and Ramalingam 1987]. Fewer studies relate to social and economic outcomes but, again, conclusions suggest that households with large numbers of children do experience lower living standards and are less successful in accumulating assets [Repetto and Shah 1988]. An interesting change in parental economic survival strategies is also noted [Caldwell et al 1984]: parents of few children are more intent than parents of many on educating and marrying their children successfully, implying a shift from a reliance on many but poorly qualified children to few children with a greater capacity to support their parents.

This paper aims to shed more light on the relationship between family size and outcomes for children in India. The locale of the study is rural Maharashtra, a region in the process of rapid socio-economic and

demographic change. Specifically, we propose to compare outcomes, both behavioural and attitudinal, for children in small and large families. Behavioural issues include the schooling and work experience of children: Are children from large families less likely to go to school? Are they less likely to attain educational milestones? Are they, as children, more likely to contribute labour assistance to their families? And, are gender disparities in their schooling and working patterns more evident? Among attitudes considered are parents' economic expectations of children, especially with regard to old age financial and residential security, their views on the costs of child rearing, their educational aspirations for children, and the extent to which quality of children considerations have become important.

The data for this study come from a sample survey conducted in 1983-84 [Jejeebhoy and Kulkarni 1986] to assess the economic value of children and fertility behaviour in two blocks ('taluks')—Wada and Bhiwandi—of one of Maharashtra's 30 districts, namely Thane. These taluks satisfied the required conditions of possessing both traditional agrarian characteristics and exposure and access to modernisation, and therefore served as the locale of the original study and are appropriate for this one.

Three questionnaires were fielded: A household questionnaire elicited information from the head of household on the social, economic and demographic details of each resident—including education and occupation. The second and third questionnaires obtained virtually identical information from all currently married women aged 15-44 and their husbands on such subjects as family size preferences, ideal sex composition, values and disvalues associated with children, aspirations for children, sources of old age security, and so on. The availability of both the woman's and her husband's perspective in relation to parental perceptions and aspirations for children offers an

added advantage. The questionnaires were administered separately to the men by a male investigator and to the women by a female investigator.

TABLE 1: COMMUNITY CHARACTERISTICS

	1981	1971
1 Total number of villages	41	
2 Educational facilities		
Number of villages with:		
Primary school	41	41
Middle school	12	9
Secondary school	8	8
3 Health facilities		
Number of villages with:		
Doctor available in village	11	9
Doctor within 5 kilometres	16	na
Doctor within 5-9 kilometres	9	na
Doctor available in 10+ km	5	na
4 Access to electricity		
Number of villages electrified	34	27
5 Drinking water facilities		
Number of villages with:		
Well	41	41
Tank	12	12
Hand pump or tap	6	1
6 Communicable roads		
Number of villages with:		
Surfaced roads	31	14
7 Communication facilities		
(a) Location of nearest bus stop:		
In village	24	8
Within 1-4 km	13	na
Within 5-9 km	4	na
(b) Location of nearest post office:		
In village	10	7
Within 1-4 km	18	na
Within 5-9 km	13	na

Source: Maharashtra, Directorate of Census Operations, 1983, *District Census Handbook: Thane District, 1981* (Directorate, Government Printing and Stationery, Bombay, Maharashtra); Maharashtra, Directorate of Census Operations, 1973, *District Census Handbook: Thane District, 1971* (Directorate, Government Printing and Stationery, Bombay, Maharashtra).

SOCIO-DEMOGRAPHIC PROFILE OF SELECTED VILLAGES

Rural Maharashtra has witnessed relatively rapid socio-economic and demographic change during the past two decades. Not only have impressive levels of literacy and enrolment, industrialisation and income been achieved, but the state is also one of the most advanced in terms of its fertility transition. For example, its total fertility rate fell by over 20 per cent, from 4.8 in 1972 to 3.8 by 1984 [Ministry of Health and Family Welfare 1981; 1988], and contraceptive prevalence increased from 23 per cent in 1972-73 to 54 per cent in 1988.

The two taluks (Bhiwandi and Wada) contain about one-sixth of the district's population. Both lie in relatively close proximity to Bombay (a five-eight hour bus ride) and the Thane industrial area (a two-four hour bus ride). This urban proximity implies that modern ideas are not unheard of, consumer goods and other modern ways of utilising resources are available and urban employment can be found, which might make children more expensive or less valuable. Despite this, however, both taluks remain typically agricultural.

While mortality has fallen considerably, in 1983-84, the crude birth rate was as high as 32.1 in Wada and 33.1 in Bhiwandi. The population in both taluks is relatively homogeneous in terms of language and education. Marathi is the main spoken language and, in 1981, the literacy rate among females was 27.3 per cent in Wada and 28.9 per cent in Bhiwandi; among males, it was 48.5 per cent and 54.4 per cent, respectively. Almost one-third (31.9 per cent) of all women in Wada are working² compared with almost one-fifth (18.2 per cent) in Bhiwandi [Mahana 1983]. These characteristics have been corroborated by the findings of this survey [Jejeebhoy and Kulkarni 1986].

As background, Table 1 provides a community-level profile of the 41 villages in 1971 and 1981, a period during which the majority of children in our sample were of school age. The profile suggests three points of interest. First, there has been little change in educational facilities over the intercensal period. A primary school (for children aged 6-9) has been available in every village since 1971, but fewer than one-third and one-fifth of all villages had a middle or secondary school, respectively, even in 1981. Second, access to health care facilities did not change much over the decade either, but in 1981, a health facility (usually a subcentre) was available within five kilometres of almost every village. Third, unlike educational and health facilities, other amenities, such as electricity, transportation, and post office facilities have become increasingly available over the decade, suggesting increased exposure and access to modernising influences.

For the purposes of this study, a small family is one with two to three children and a large family is one with four or more children. Large families are further subdivided into those with four to six children on the one hand and those with seven or more children on the other. This definition of small and large families is in conformity with the messages of the Indian family planning programme which advocated two to three children during the 1970s and shifted, in the 1980s, to two children. It is also an appropriate definition as far as the actual distribution of family sizes in rural Maharashtra is concerned [Ministry of Health and Family Welfare 1989]: An equal proportion of currently married women in the reproductive ages have two-three and four or more children (38.1 per cent and 38.4 per cent), the rest have none or one.

As a result of the relatively rapid demographic and socio-economic development in the study area, the data set includes a substantial number of couples who have few (two-three children) and many (four-six, seven+) children, offering scope for the

comparative analysis of children in different-sized families proposed here. To ensure some homogeneity in terms of the family-building process, the sample is restricted to currently married couples with the wife aged between 25 and 44, and who have two or more children, at least one of whom is aged 5-18. The sample then consists of 1,140 women and 1,137 husbands from the 41 villages under study.³ Also, child information is provided by data available for 2,981 children (1,547 boys and 1,434 girls) aged five to 18. In the following sections, the analysis will refer alternatively to women and husbands on the one hand and children on the other.

Table 2 presents the social and economic background of the sample. As expected in a relatively high fertility society, there are more couples with four or more children (599 women and 597 husbands with four to six children and 68 women and husbands with seven or more) than with two or three (473 women and 472 husbands). The large majority (over 80 per cent) of all three groups is Hindu; about one-third live in

TABLE 2: SELECTED SOCIO-ECONOMIC CHARACTERISTICS OF COUPLES BY FAMILY SIZE, CURRENTLY MARRIED WOMEN AGED 25-44

	Total	Family Size		
		Small Families 2-3	Large Families 4-6 7 or more	
1 Number of women with 2 or more children	1,140	473	599	68
Number of husbands	1,137	472	597	68
2 Religion: per cent Hindu	88	89	88	84
3 House type: per cent 'kaccha' (shanty)	44	49	41	29
Per cent semi pucca (semi permanent)	24	21	27	29
Per cent pucca (permanent structure)	32	30	32	41
4 Family type: per cent nuclear	58	60	58	51
5 Woman's education: mean number of years	1.6	1.9	1.4	0.8
Per cent uneducated	70	68	71	78
Per cent primary	15	14	16	18
Per cent middle	11	12	10	4
Per cent secondary or higher	4	6	3	0
6 Husband's education: mean number of years	3.7	4.1	3.5	2.6
Per cent uneducated	36	36	35	43
Per cent primary	31	25	35	38
Per cent middle	19	19	19	15
Per cent secondary or higher	15	21	11	4
7 Parental education (per cent)				
Both none	34	34	34	40
Mother none, father primary or more	37	35	38	41
Mother primary, father primary or more	16	15	17	15
Both primary or more	12	15	11	4
8 Mass media exposure: per cent exposed to no media	25	23	26	31
9 Woman's occupation (per cent)				
Prof/admin/cler/sales/service	2	2	2	0
Cultivator	15	16	13	22
Agricultural labour	20	22	20	10
Production/non-agricultural workers	2	2	2	3
Housework	61	56	64	65
10 Husband's occupation (per cent)				
Prof/admin/cler/sales/service	21	21	21	16
Cultivator	33	32	33	43
Agricultural labour	27	28	27	21
Production/non-agricultural workers	19	18	19	19
11 Consumer durables: mean number owned	0.9	0.8	0.9	1.1
12 Household income (Rs)	10,975	9,615	11,459	16,165
Per capita income (weighted)	2,059	1,953	2,141	2,079

permanent structures and three-fifths reside in nuclear families. Economic status, as reflected by income, and ownership of consumer durables, is essentially similar over the three family-size groups. Though couples with larger families have somewhat higher income levels than those with few children, the average per capita incomes (adjusted for equivalent adults) of the three groups are very similar (around Rs 2,059). Work status and occupational distributions suggest, however, that women with few children are somewhat more likely to work (44 per cent) than women with many (36 and 35 per cent). As expected, the primary occupation of working men and women in all three family-size groups is agricultural cultivation or labour.

Somewhat different are educational levels and exposure to the mass media. Seventy per cent of all women and one-third of their husbands have had no education and among one-third of all couples, both spouses are uneducated. However, parents with few children are systematically better educated than those with many children and those with seven or more children tend to be least educated; this is especially evident at the higher end of the educational spectrum. For example, while 18 per cent of all women with two-three children have had at least a middle school education, this proportion falls to 13 per cent and 4 per cent among those with four-six and seven or more children respectively. Among their husbands, this proportion falls more steeply from 40 per cent to 30 per cent and to 18 per cent respectively. Similarly, as far as mass media exposure is concerned, about three quarters of all respondents are exposed to the mass media and this proportion increases moderately from 69 per cent among those with seven or more children to 77 per cent among those with two-three children.

Demographic differences are more pronounced, as seen in Table 3; this is not unexpected, given the criteria for the two groups. The average size of households varies from 6.8 members in small families to 8.0 and 10.4 in large families with four-six and seven + children, respectively. This includes 2.6 children among small families and 4.7 and 7.4 children among large families with four-six and seven or more respectively. Large family couples tend to be older and married somewhat longer than small family couples. They are also considerably more likely to have completed their family size: Over three-fifths (63 and 60 per cent, respectively) of them have been sterilised compared with about half (47 per cent) of all couples with two-three children.

A more important demographic difference is the composition of children. Son preference is widespread in the area under study as in India in general and couples with one or two sons are more likely to subse-

TABLE 3: SELECTED DEMOGRAPHIC CHARACTERISTICS OF COUPLES BY FAMILY SIZE, CURRENTLY MARRIED
WOMEN AGED 25-44

	Total	Small Families		
		2-3	4-6	7 or more
1 Household size	7.6	6.8	8.0	10.4
2 Mean age of woman	32.9	30.3	34.2	38.9
3 Mean duration of marriage	16.6	13.4	18.2	23.5
4 Number of children aged 5-18	2,981	866	1,804	311
Boys	1,547	507	891	149
Girls	1,434	359	913	162
5 Children ever born	4.5	3.0	5.2	8.0
Sons ever born	2.3	1.7	2.5	3.9
Daughters ever born	2.2	1.3	2.7	4.1
6 Surviving children	4.0	2.6	4.7	7.4
Sons surviving	2.0	1.5	2.3	3.6
Daughters surviving	2.0	1.1	2.4	3.8
7 Per cent sons	52	58	48	48
8 Per cent children dead	9	10	8	6
9 Per cent women with children aged				
0-4	50.0	50.3	49.9	48.5
5-9	78.1	75.5	79.8	80.9
10-14	68.5	49.7	80.0	98.5
15-17	31.2	13.5	39.4	82.4
18+	17.2	4.4	21.7	66.2
10 Number of children aged:				
0-4	836	319	467	50
5-9	1,372	477	801	94
10-14	1,147	286	734	127
15-17	392	70	257	65
18+	249	22	160	67
11 Contraceptive prevalence (per cent)	60	52	66	64
Per cent sterilised	56	47	63	60
Per cent using non-terminal methods	4	5	3	4

TABLE 4: PARENTAL ASPIRATIONS FOR AND VALUES ATTACHED TO CHILDREN'S EDUCATION,
BY FAMILY SIZE AND SEX OF CHILD

	Women				Husbands			
	Total	Small Families	Large Families		Total	Small Families	Large Families	
	2-3	4-6	7 or more		2-3	4-6	7 or more	
I Expectations for child education								
A Education for boys								
1 Some primary, not sure	34.8	32.8	36.2	36.8	31.4	34.2	29.8	26.5
2 Middle or secondary	9.9	9.3	9.5	17.6	8.2	8.5	7.9	8.8
3 Higher than secondary	5.1	5.9	5.0	0.0	11.2	10.6	11.8	10.3
4 As much as he/she wants	50.2	52.0	49.2	45.6	49.2	46.7	50.5	54.4
B Education for girls								
1 Some primary, not sure	48.2	48.8	47.1	52.9	44.0	48.0	41.1	41.2
2 Middle or secondary	18.4	17.4	20.2	23.5	16.4	12.1	19.7	17.6
3 Higher than secondary	1.8	2.5	1.3	0.0	5.0	5.3	4.9	4.4
4 As much as he/she wants	31.7	33.2	31.4	23.5	34.6	34.6	34.3	36.8
II Value of education								
A For boys								
1 None	5.6	5.7	5.3	7.4	6.8	7.4	6.7	2.9
2 Better earning potential	88.8	89.0	89.0	85.3	83.1	82.2	83.5	85.3
3 Better marriage prospects	10.8	11.2	10.4	11.8	8.4	6.4	10.1	7.4
4 Higher status to family	39.6	37.4	41.4	39.7	57.4	60.1	55.2	57.4
5 Other	2.5	1.9	2.8	2.9	1.2	1.5	1.2	0.0
B For girls								
1 None	27.5	30.7	24.7	30.9	32.7	34.0	32.0	30.9
2 Better earning potential	17.6	18.6	17.2	11.7	15.5	14.2	17.5	7.4
3 Better marriage prospects	60.4	56.4	63.3	63.2	54.9	52.0	56.6	60.3
4 Higher status to family	11.5	11.0	12.5	11.8	21.3	24.8	18.7	19.1
5 Other		5.7	6.7	2.9		2.7	2.5	4.4
(N)		173	599	68	1,133	471	594	68

quently limit family size than are those without sons. This is apparently the case here too, as seen in Table 3. Small family couples have a somewhat larger proportion of sons (58 per cent) than do large family couples (48 per cent).

These findings suggest considerable similarity in certain economic conditions such as income, ownership of modern durables, and occupation, though women from small families are considerably more likely to work than those from larger families. More pronounced differences are observed with regard to education and mass media exposure, with parents of few children being better off than those with many. And, finally and not surprisingly, the three family-size groups are marked by their very different demographic characteristics. In brief, parents of few children are, by and large, similar in a number of cultural and economic characteristics to parents of many children. This minimises, to some extent, a problem common to this kind of study where differences in consequences associated with different family sizes may well be the result of fundamental socio-economic differences that affect both the consequences we are looking for and family size itself.

FAMILY SIZE AND EDUCATION OF CHILDREN

In Maharashtra, primary school consists of four years of education, followed by middle (three years) and secondary (three years) school. Primary education is compulsory but this is rarely enforced and large numbers of children remain out of school. Since every village under study had a primary school, extraneous factors such as long distances and so on are unimportant in determining whether a child is sent to school; these factors obviously play a role in middle and secondary school education (only one-third and one-fifth of all villages had a middle and secondary school, respectively) and are known to be an additional deterrent to the further education of girls.

Three measures of educational attainment have been examined: (1) the proportion of children aged 7-18 (excluding married daughters and sons living elsewhere) currently in school; (2) the proportion of children aged 11-18 who have completed primary school; and (3) the proportion of children aged 15-18 who have completed middle school (seven years). Theoretically, primary school (class 4) is to be completed by age 9 and middle school (class 7) by age 12. However, in rural areas there is no fixed age at entry into school and there is considerable stagnation, so milestones are rarely achieved at the expected ages. The unusually late/wide age groupings used here were deliberately chosen to accommodate this practice.

Before examining children's educational attainment by family size, one would like to see whether parents of few children were in

fact self-selected on the basis of educational aspirations for children or opinions regarding the value of educating children. Table 4 shows little or no disagreement between parents of few and many children on either how much to educate children or why to educate them. Nor do women and their husbands have significantly differing views. The most striking difference, of course, is in expectations for sons compared with daughters—a disparity that persists among parents with small and large families alike and

at each socio-economic level. So, parents of few and many children are different neither in terms of their own socio-economic characteristics, nor in terms of aspirations for children. In short, parents' expectations are not driving family size, and there is no support for the argument that couples who want 'higher quality' children deliberately have fewer of them.

Table 5 presents the educational attainment with children (from families of two or more children) as the unit of analysis. On the

TABLE 5: EDUCATIONAL ATTAINMENT OF CHILDREN BY FAMILY SIZE AND SEX OF CHILD

	Percentages				Numbers			
	Total	Families*			Total	Families		
		Small 2-3	Large 4-6	7 or more		Small 2-3	Large 4-6	7 or more
1 Percentage of children aged 7+ in school								
Total	64.5	71.3	63.3	55.6	2,498	662	1,550	286
Boys	72.2	76.9	71.8	61.6	1,311	394	779	138
Girls	56.0	63.1	54.7	50.0	1,187	268	771	148
2 Percentage of children aged 11+ completed primary school								
Total	61.1	65.8	59.5	61.4	1,347	281	864	202
Boys	69.8	74.7	67.9	69.7	716	174	443	99
Girls	51.2	51.4	50.6	53.4	631	107	421	103
3 Percentage of children aged 15+ completed middle school								
Total	48.8	53.8	50.3	40.2	514	86	332	102
Boys	59.8	64.4	60.6	51.9	316	59	203	54
Girls	31.3	23.8	34.1	27.1	198	21	129	48

Note: * T-tests measuring the difference between small (2-3 children) and large families (4-6 and 7+ children) significant at the .05 level or better.

TABLE 6: ADJUSTED PERCENTAGES OF CHILD SCHOOLING INDICATORS BY FAMILY SIZE, PARENTAL EDUCATION, HOUSEHOLD ECONOMIC STATUS, AND MOTHER'S WORK STATUS, CONTROLLING FOR AGE OF CHILD AND MOTHER

	Per Cent Aged 7+ in School			Per Cent Aged 11+ Completed Primary School			Per Cent Aged 15+ Completed Middle School		
	Total	Boys	Girls	Total	Boys	Girls	Total	Boys	Girls
Total	64.5	72.2	56.0	61.1	69.8	51.2	48.8	59.8	31.3
1 Family size									
2-3 children	68.9	73.4	60.8	70.6	78.7	55.3	56.8	66.2	27.4
4-6 children	63.4	72.5	54.4	59.1	66.9	51.1	51.0	60.6	35.6
7+ children	60.5	67.5	55.6	56.6	67.2	47.3	35.5	49.7	21.5
(Beta)	0.06	0.04	0.05	0.10	0.11	0.05	0.14	0.10	0.13
2 Parental education									
None	48.0	55.1	39.2	38.3	48.4	25.7	31.3	41.6	14.1
Mother none, father prim/+	67.7	77.3	57.9	68.8	79.7	57.0	51.3	65.4	31.6
Mother, father prim/prim+	80.9	86.5	74.7	80.1	83.9	25.8	67.6	74.0	55.9
(Beta)	0.27	0.29	0.28	0.35	0.34	0.39	0.28	0.27	0.32
3 Ownership of consumer durables									
Own none	57.9	67.6	47.7	52.8	63.2	41.2	38.2	47.2	24.7
One	71.8	78.4	61.0	71.2	78.2	63.4	54.9	72.3	26.4
Two or more	75.8	78.9	72.0	74.7	79.0	67.3	69.1	77.0	55.0
(Beta)	0.17	0.12	0.21	0.20	0.17	0.24	0.26	0.28	0.26
4 Mother's work									
No	66.5	73.3	58.5	64.3	73.4	53.7	49.6	60.8	30.9
Yes	61.2	70.3	52.0	55.5	63.4	47.0	47.4	57.7	32.0
(Beta)	0.05	0.03	0.06	0.09	0.10	0.06	0.02	0.03	0.01
Multiple R squared	0.270	0.240	0.345	0.276	0.251	0.322	0.258	0.265	0.280

whole, roughly two out of three children aged 7-18 attend school, three out of five of those aged 11-18 have completed primary school, and almost half of those aged 15-18 have completed middle school. Table 5 highlights three points. First, what stands out prominently is that boys are more likely than girls to attend school and to have completed primary and middle school. Second, when boys and girls are considered together, educational milestones are moderately but consistently more likely to be attained by children from small families compared with children from large families (Cols 3 to 5). Third, and more important, it is not all children who benefit from small family size, but boys specifically; this is more evident in primary and especially middle school attainment.

Family size continues to exert a moderate effect on children's educational outcomes even after taking into account socio-economic factors and maternal and child age. The adjusted means (by Multiple Classification Analysis) presented in Table 6 reflect the net effect of such independent variables as parental education, number of consumer goods owned, mother's work status, and family size (after taking into account the influence of all variables other than the reference variable, as well as age of child and age of woman) on percentages of children (a) in school; (b) who have completed primary school; and (c) who have completed middle school. In view of the gender disparities observed, adjusted means have been shown for all children and for boys and girls separately.

The adjusted means show a consistently inverse association between family size and the percentages of children who have completed primary and middle school, even after controlling for the effects of other powerful influences on child education. In contrast, the association with current school attendance is somewhat weakened as a result of these controls and largely because of the age distribution of children. By definition, large families tend to have more older children than do small families and, given educational attrition, older children are more likely to be out of school than younger ones. In short, the results lend support to the argument that limiting family size has positive consequences for children's educational attainment, and to a lesser extent, on current school attendance rates.⁴

Examining these relationships for boys and girls separately highlights gender disparities in educational attainment, if not attendance. As far as primary and middle school attainment goes, boys in small families have a distinct advantage over boys in the two larger family-size groups (79 per cent versus 67 per cent and 67 per cent for primary school; and 66 per cent versus 61 per cent and 50 per cent for middle school).

Girls, in contrast, do not. Girls in small families are slightly more likely than those in larger families to have attained a primary school education (55 per cent versus 51 per cent and 47 per cent); but the proportion completing middle school is actually lower among girls from small families (27 per cent) than among larger families with four-six children (36 per cent), though it is lowest among girls in families with seven or more children (22 per cent). We hypothesise from this that girls in small families, just like girls in very large families, are withdrawn from school in order to undertake additional work responsibilities, which arise by virtue of shrinking family size in the case of the former, and by virtue of extremely large numbers of children in the case of the latter.

Social and economic factors such as the educational levels and economic status of their parents have an important bearing on children's educational attendance and attainment: the net association between parental education and ownership of consumer durables and the measures of child education have, as expected, a considerably more powerful effect than family size. Unadjusted means (not shown here) also suggest that at each socio-economic or age category, children (especially boys) from small families exhibit higher attendance and attainment levels than those from large families. Disparities are particularly evident at the lower end of the spectrum (for uneducated and low income parents) and narrow at higher levels.

Beta statistics, which summarise the extent of association between each independent variable and each child education measure after controlling for the influence of the other variables, suggest that parental education exerts the greatest influence on child education, followed closely by ownership of consumer goods, and much more weakly by family size and mother's work status. The squared value of the multiple correlation

coefficients (which range from .24 to .34) suggests that the independent variables included in Table 6 together account for over a quarter of the total variance.

Within each family-size group, chances of becoming educated are also influenced by the child's placement among his or her same-sex siblings. Once family size and socio-economic factors are controlled, adjusted percentages presented in Table 7 suggest that eldest sons are at a particular advantage. While sons of any order are about equally likely to receive a primary school education, it is the eldest son who is most likely to attain a middle school education. Having older sisters, however, actually improves a boy's chances of attaining these milestones, presumably since the presence of sisters frees boys from household and farm work. Among daughters, the effect is more moderate: eldest daughters are somewhat more likely to be in school and to complete a primary school education and somewhat less likely to complete middle school. The results indicate that parents allocate resources on education disproportionately among their eldest sons.

These results suggest that family size and sibling order influence educational outcomes for children even after controlling for the effects of other socio-economic and demographic variables. Family size influences are especially clear: We find that advantages accrue mainly to boys in small families, who are more likely to attain both a primary and a middle school education. The educational attainment of girls in small families, in contrast, is only slightly higher than that of girls in larger families (as assessed by current attendance and primary school attainment), and somewhat poorer (at least compared to families with four-six children), when judged by completion of middle school education. Within each family size group, same sex sibling order further affects chances of education. It is not all sons

TABLE 7. ADJUSTED PERCENTAGES OF CHILD SCHOOLING INDICATORS, BY SIBLING ORDER*

	Per Cent Aged 7+ in School			Per Cent Aged 11+ Completed Primary School			Per Cent Aged 15+ Completed Middle School		
	Total	Boys	Girls	Total	Boys	Girls	Total	Boys	Girls
Total	64.5	72.2	56.0	61.1	69.8	51.2	48.8	59.8	31.3
1 Number of older brothers									
None	63.8	70.3	56.3	60.7	69.7	50.2	49.2	60.9	30.2
One	64.6	75.2	55.0	62.8	71.7	54.5	50.4	54.8	37.5
Two or more	68.8	78.9	57.3	60.1	67.3	49.3	42.4	39.4	38.0
(Beta)	0.03	0.07	0.01	0.02	0.02	0.04	0.03	0.08	0.06
2 Number of older sisters									
None	64.8	72.2	57.4	61.1	69.6	51.6	48.2	59.1	31.1
One	62.9	71.6	50.2	56.0	72.9	33.2	56.6	68.8	32.4
Two or more	63.5	74.6	48.3	70.4	91.0	47.7	59.4	77.7	36.2
(Beta)	0.01	0.01	0.06	0.02	0.04	0.05	0.05	0.06	0.02
Multiple R Squared	0.213	0.227	0.303	0.231	0.216	0.267	0.201	0.204	0.226

Note: * Adjusted for family size, education, household economic status, and maternal and child ages

Education, household economic status, and maternal and child

equally, but eldest sons who have the best chance of achieving educational milestones, compared with both lower order sons and all daughters. The presence of elder sisters actually improves a boy's chances of achieving educational milestones. Given the kinds of values attached to the education of girls (Table 4), it is hardly surprising that parents with few children allocate resources on education disproportionately among their sons and that parents in any sized family concentrate resources on educating their eldest sons rather than all children equally, irrespective of sex and order.

FAMILY SIZE AND WORK ACTIVITY OF CHILDREN

The second outcome we look at is children's work. As in all rural areas of India, there are ample opportunities for parents to obtain labour support from their children in the area under study. Children contribute labour assistance in a number of ways, for varying amounts of times, and from an early age. Here, two broad types of activity—housework and non-domestic work (including work on the family farm or in the family business and work for wages)—are examined. Within each, we consider both how many children are involved (that is, the proportion who were engaged in particular activity during the 12 months prior to the survey) and how much time is devoted to the activity by working children (that is, the average number of equivalent days worked in an activity during the same period, data on the number of days and hours per day worked have been converted to a measure of equivalent days assuming an eight-hour work day).

A look at the overall patterns of work, irrespective of family size, indicates that roughly three out of five children aged 5-18 are involved in some kind of work, as seen in Table 8. Further, working children offer more than a token labour contribution to the household: The average working child spends a total of 105 days in work activities. As expected, the activity most likely to engage children (about half) is housework. Activities other than housework engage about one-quarter of the children, including, 20 per cent who work on the farm or business, and 8 per cent in wage activities.

Gender differences are striking, though not unexpected. Many more girls (68 per cent) than boys (54 per cent) work, but the distribution of activities suggests that the labour contribution of girls is less likely to be valued. As anticipated, more girls are involved in housework (65 per cent compared with 34 per cent of all boys), and more boys in non-domestic activities (29 per cent compared with 19 per cent of all girls). On the whole, not only do more girls work, but each working girl spends more time working than the typical working boy does; again, this is largely the result of their substantial participation in housework. However, as far as non-domestic work is concerned, the time contribution of boys does exceed that of girls—102 and 91 days, respectively.

Concerning the role of family size in determining whether or not a child works and how much time working children contribute, the results of Table 8 are necessarily tentative since they are unadjusted for ages of children and other socio-economic factors that may well mediate the relationship. On the whole, however, the results suggest

that there is not much difference in the total proportion of children working; what manifests much more consistently here is that the time input of working children from small families is significantly less than that of children from large families. The results also suggest differences in work outcomes for children by both gender and nature of activity.

More important than the unadjusted relationships is the independent effect of family size on child work patterns. Table 9 presents adjusted means, reflecting again the net effects of parental education, ownership of consumer durables, mother's work status, and family-size group, after controlling for the influence of all the other variables, as well as ages of child and mother, on six measures of work: proportions working and days worked in any activity, housework and non-domestic work, respectively, for both males and females.

Once socio-economic status and age are controlled, when we consider all children irrespective of sex, we find that family size has an influence on both whether or not children work and on how long they work. Children from small families are somewhat more likely to be working than those in larger families. Distinctions are somewhat sharper when their time contribution is considered. On the whole, working children from large families (with four-six children) work for about half a month longer than do those from small families (109 and 95 days, respectively), with a slight downturn in the days worked by children in the largest families (103 days). So also do children from large families who are involved in housework (86 and 83 days in the two large family

Table 8: Children's Work Status Indicators by Family Size and Sex of Child

	Per cent Working				Mean Number of Days Worked				Number of Children			
	Total	Small Families		Large Families	Total	Small Families		Large Families	Total	Small Families		Large Families
		2-3	4-6	7+		2-3	4-6	7+		2-3	4-6	7+
1 Any work												
1 Total	60.7	57.5	62.1	61.1	105	89	110	114	1,809	498	1,121	190
1 Boys	54.0	52.5	54.7	55.7	90	77	96	101	836	266	487	83
1 Girls	67.9	64.6	69.4	66.1	117	103	120	123	973	232	634	107
2 Household work												
2 Total	48.6	47.9	49.7	44.4	82	73	86	86	1,450	415	897	138
2 Boys	33.9	38.5	32.2	28.2	58	56	58	69	524	195	287	42
2 Girls	64.6	61.3	66.8	59.3	95	88	99	93	926	220	610	96
3 Non-domestic activities												
3 Total	24.1	17.7	25.5	33.8	98	93	100	94	718	153	460	105
3 Boys	28.5	21.3	31.2	36.9	102	88	107	101	441	108	278	55
3 Girls	19.3	12.5	19.9	30.9	91	104	89	86	277	45	182	50
4 Family farm or business												
4 Total	20.1	14.5	21.3	28.6	67	69	68	59	599	126	384	89
4 Boys	23.8	17.8	26.2	30.2	70	67	73	62	368	90	233	45
4 Girls	16.1	10.0	16.5	27.2	61	74	60	56	231	36	151	44
5 Wage labour												
5 Total	7.6	5.3	8.1	11.3	139	121	143	147	217	46	140	31
5 Boys	8.7	5.8	9.3	14.4	154	122	164	161	124	29	78	17
5 Girls	6.4	4.6	6.8	8.3	118	119	116	129	93	17	62	14
Number	2,981	866	1,804	311								

TABLE 9: ADJUSTED PERCENTAGES OF CHILDREN'S WORK STATUS BY FAMILY SIZE, PARENTAL EDUCATION, HOUSEHOLD ECONOMIC STATUS, AND MOTHER'S WORK STATUS, CONTROLLING FOR AGE OF CHILD AND MOTHER

	Any Activity						Housework						Non-Domestic Work					
	Total			Boys			Total			Boys			Total			Boys		
	Per Cent	Days	Per Cent	Per Cent	Days	Per Cent	Per Cent	Days	Per Cent	Days	Per Cent	Days	Per Cent	Days	Per Cent	Days	Per Cent	Days
	Working	Working	Working	Working	Working	Working	Working	Working	Working	Working	Working	Working	Working	Working	Working	Working	Working	Working
Total	60.7	105	54.0	90	67.9	117	48.6	82	33.9	58	64.6	95	24.1	98	28.5	102	19.3	91
1 Family size																		
2-3 children	61.8	95	56.9	81	69.9	113	49.6	74	38.9	53	66.1	93	23.0	95	27.1	91	17.4	104
4-6 children	61.2	109	53.2	95	68.7	120	49.3	86	32.0	60	66.1	98	24.4	100	29.4	108	19.4	88
7+ children	54.7	103	49.4	92	58.5	107	42.3	83	27.9	73	52.5	85	25.1	89	28.0	90	23.1	90
(Beta)	0.04	0.08	0.05	0.09	0.07	0.05	0.04	0.08	0.08	0.12	0.09	0.06	0.02	0.05	0.02	0.10	0.04	0.08
2 Joint education																		
None	63.1	119	55.9	106	71.1	131	47.5	89	30.0	64	67.3	102	29.5	113	35.0	117	23.4	106
Mother none																		
father primary/+	60.3	100	54.4	82	66.4	116	49.6	81	35.6	54	63.5	98	24.3	85	28.4	91	20.1	78
Mother, father primary/primary++	58.3	90	51.3	81	66.0	97	48.7	74	36.0	59	62.9	82	17.2	88	21.0	88	13.0	84
(Beta)	0.04	0.14	0.04	0.15	0.05	0.16	0.02	0.09	0.06	0.08	0.04	0.11	0.11	0.16	0.12	0.15	0.10	0.18
3 Ownership of consumer durables																		
One	63.5	110	56.8	97	70.6	122	49.9	83	33.8	57	67.0	96	26.2	108	31.2	112	20.8	101
Two or more	58.7	96	52.7	76	65.2	113	48.1	82	33.8	57	63.3	96	23.5	75	27.6	77	19.1	73
(Beta)	0.07	0.09	0.07	0.11	0.07	0.09	0.03	0.02	0.00	0.04	0.07	0.02	0.07	0.18	0.08	0.18	0.05	0.19
4 Mother's work																		
No	61.1	103	54.6	90	68.5	115	49.3	82	34.9	57	65.8	96	23.5	96	28.0	102	18.4	84
Yes	60.0	107	52.9	91	66.8	119	47.5	83	32.0	61	62.5	94	25.1	100	29.5	101	20.8	99
(Beta)	0.01	0.02	0.02	0.01	0.02	0.02	0.02	0.01	0.03	0.04	0.03	0.01	0.02	0.03	0.02	0.00	0.03	0.10
Multiple R squared	0.263	0.140	0.247	0.130	0.311	0.186	0.077	0.035	0.034	0.030	0.229	0.054	0.292	0.126	0.314	0.131	0.268	0.150

size groups and 74 days in the small family size group). On the other hand, family size appears to have little effect on the time contribution of children involved in non-domestic activities (95 days among children from small families compared with 100 and 89 days, respectively, for children from larger families).

* These overall figures obscure considerable gender variation. A notable difference is that boys in small families are systematically more likely to do housework than boys in large families (39 per cent, compared to 32 and 28 per cent, respectively) though of course, significantly less likely than girls. By and large, working boys from small families put in significantly fewer days than working boys in large families do, no matter what the activity: 81 compared with 95 and 92 days overall; and 53 compared with 60 and 73 days for those involved in housework. Likewise, boys in small families work a total of 91 days in non-domestic work, compared to 108 days among large families with 4-6 children, while boys in the largest families work about as much as those from small families (90 days). By and large, however, these results suggest that one consequence of a smaller family size is a reduction in the labour contribution of sons to the family.

In the case of girls, the results are different. Belonging to a small family has no advantages in terms of work. Family size has hardly any effect on their time input in general (113 days compared with 120 and 107 days among girls from larger families) and in housework (93 compared with 98 and 85 days respectively). But in non-domestic activities, girls from small families actually spend 14 to 16 more days (104 days) than do girls from large families (88 and 90 days, respectively), and 13 more days than boys from small families (91 days). This suggests that girls in small families are being substituted for boys in such activities as family farm and wage earning which are traditionally more likely to be performed by boys. This corroborates our hypothesis that girls in small families are withdrawn from school to make up for a diminishing supply of family labour (as a result of both lower fertility and increased schooling of boys), and therefore are less likely to complete middle school.

As in the case of education, within each family size group, chances of working are also influenced by the child's order among his or her same-sex siblings as seen by the adjusted percentages presented in Table 10. The results show that the major burden of work, overall, in terms of both proportions working and time contribution is undertaken by older daughters. Daughters at any parity are more likely to work and work longer hours than sons, but having elder sisters frees both boys and younger girls from

work. To a lesser extent, among boys also, the eldest son is more likely to work than younger sons, but differences are moderate.

More important than family size are socio-economic and demographic determinants of children's work status. Parental education and ownership of consumer goods generate powerful differences in work outcomes for children, both in terms of proportions of children working and in the time contribution of those who work. The one exception is the proportion of children engaged in housework; this indicator declines weakly, at best, with improvements in socio-economic conditions. Unadjusted means (not shown here) offer additional support for the independent effect of family size: At each socio-economic level or age group, the likelihood that a child will work in non-domestic activities (family farm, business or wage activities)—and particularly the time contribution of working children is systematically higher among children in large families. In fact, beta coefficients suggest that family size is almost as strong a determinant of the time contribution of working boys as parental education or economic status are.

So, are children from small families better off? That is, are labour demands made on them relatively more modest than those made on children from large families? The answer, as in the case of education, depends largely on gender, the nature of the work activity, and finally, sibling order. The following observations stand out. Whether or not a child works is inversely, but moderately, related to family size and positively related to the child's order in the family. Children in small families are moderately more likely to be working than those in families with four-six children and considerably more likely to be working than those with seven or more children; this is especially evident in the somewhat larger proportion of boys and girls from small fami-

lies engaged in housework. Within each family size group, older daughters, and to a milder extent, older sons, are more likely to work than younger siblings, and having an older sister reduces the chances that her siblings of either sex will have to work.

More important, how much time children put in is more powerfully determined by family size but in quite different ways for boys and girls. Working boys from small families put in significantly fewer days than working boys from large families do, consistent with their increased schooling. And eldest sons put in about 12-13 more days of work than their younger brothers (many of the former may already have attained a middle school education). The only exception here is that among boys engaged in non-domestic work, those from very large (7+) families contribute no more time than boys in small families; it is possible that in this rural context, non-domestic work refers mostly to work on the family farm whose labour absorptive capacity is limited.

In contrast, for girls, belonging to a small family holds no advantages in terms of work or schooling. Contrary to our expectations, girls in small families put in more time than girls in large families in such activities as the family farm and wage labour (activities which, in a large family, would be performed by boys), and about as much time in housework. Among daughters, it is the eldest daughters upon whom the major responsibility of work lies. It appears that with the shrinking labour supply of boys for performing non-domestic work—both as a result of small family size and the greater likelihood of being engaged in education—shortfalls are taken up by daughters,⁵ and especially elder daughters. Elder daughters now spend considerably more time than younger girls in large families or their brothers in small families in working on the family farm and in wage labour, at the cost of their education.

TABLE 10: ADJUSTED PERCENTAGES OF CHILDREN'S WORK STATUS BY SIBLING ORDER*

	Any Activity					
	Per Cent	Days	Per Cent	Days	Per Cent	Days
	Working	Worked	Working	Worked	Working	Worked
	Total		Boys		Girls	
Total	60.7	105	54.0	90	67.9	117
1 Number of older brothers						
None	60.8	106	55.4	95	67.2	117
One	61.4	103	52.3	78	69.7	119
Two or more	58.0	94	49.1	78	66.9	108
(Beta)	0.02	0.04	0.04	0.09	0.02	0.03
2 Number of older sisters						
None	64.3	105	57.1	91	71.5	117
One	49.7	100	46.6	84	54.9	120
Two or more	43.4	85	38.1	89	51.6	87
(Beta)	0.14	0.04	0.12	0.02	0.15	0.06
Multiple R squared	0.274	0.135	0.254	0.127	0.325	0.183

Note: * Adjusted for family size and parental education, household economic status, and mother's work status, maternal and child ages.

FAMILY SIZE AND PARENTS' ECONOMIC ATTITUDES AND EXPECTATIONS

So far, we have discussed outcomes for children in childhood; we now turn to expected outcomes for children in adulthood. It is well known that in this region, non-familial sources of support and individual ability to save are rare. Children, notably sons, are an important source of economic security to parents, not only for their current labour assistance as we have already seen, but also for potential support in times of adversity and particularly in old age.

How might parental expectations shift with declining fertility? On the one hand, one could expect that with fewer children, parents can save more and will therefore be more likely to rely on their own resources rather than on children. One could also expect, based on the work of Caldwell et al (1984), that parents of few and many children alike rely on them for future economic support, but those with few children rely on better educated and higher quality children, from whom returns are expected to exceed or at least equal the support of many children of lesser quality.

Does family size have an effect on parents' economic attitudes regarding children? Are parents of few children more likely to depend on their savings and less likely to depend on sons? Are they more likely to be able to utilise their own savings for future expenses on children, and less likely to expect to sell assets or draw on the assistance of older siblings and other relatives? Are they less likely to expect to reside with their sons in the future? And finally, are they less likely to feel the pinch in terms of current ability to make non-child purchases? Table 11 presents a range of seven economic attitudes expressed by both women and their husbands. These can be grouped into those referring to (1) reliance on children for future old age, residential, and other support; (2) reliance on savings for the future; and (3) trade-off between costs of child rearing and other non-child purchases.

A look at parental expectations in general suggests that sons continue to be the major source of economic and residential support in old age. This is true of both women and their husbands, but is more evident among women given their economically dependent position. Almost all parents, for example, intend to reside with their sons once their sons are married (96 per cent of women and 95 per cent of their husbands). Similarly, 86 per cent and 81 per cent, respectively, expect their sons to support them, and almost one-fifth of all husbands expect that older children will help support the future expenses of their younger siblings.

Far fewer parents intend to rely on their own savings for old age and emergencies.

While two-thirds of all women and three-quarters of their husbands acknowledge the importance of their own savings for such support, only 7 per cent of all women and 15 per cent of their husbands expect to rely on them. About three-fifths of all husbands intend to provide for the future expenses of their younger children through their own savings or income rather than relying on older children or other relatives.

Finally, parents are quite aware that the costs of child rearing have denied them the opportunity to invest in other things. This is so particularly of women who are more likely to use whatever resources are available to them for their children. Almost three-quarters of all women compared to only half of their husbands acknowledge that the costs of child rearing have deterred them from making other purchases.

TABLE 11: ADJUSTED PERCENTAGES OF PARENTS EXPRESSING VARIOUS ECONOMIC ATTITUDES BY FAMILY SIZE, PARENTAL EDUCATION, HOUSEHOLD ECONOMIC STATUS, AND MOTHER'S WORK STATUS, CONTROLLING FOR AGE OF WOMEN

	Reliance on Children: Who			Reliance on Own Savings, Income: Who			Child Rearing Costs: Who
	Expect Old-Age Support from Children	Expect to Reside with Children	Expect Older Children to Support Younger Siblings	See Need to Save for Old Age and Emergencies	Expect to Rely on Own Savings for Old Age	Expect to Rely on Own Resources for Future Expenses on Young	Experience that Child Rearing Costs Have Inhibited Them from Making Other Purchases
A Women	86.4	95.8		65.8	6.7		72.7
1 <i>Family size</i>							
2-3 children	84.0	94.0		68.2	7.5		68.8
4-6 children	87.9	97.1		63.6	6.3		74.9
7+ children	89.6	96.5		67.9	4.6		81.0
(Beta)	0.06	0.07		0.05	0.03		0.08
2 <i>Parental education</i>							
None	87.0	95.6		69.6	3.1		71.6
Woman none, husband prim/+	88.3	95.7		63.3	5.5		74.9
Woman, husband prim/prim+	83.0	96.0		64.4	12.6		71.2
(Beta)	0.06	0.01		0.06	0.16		0.04
3 <i>Ownership of consumer durables</i>							
Own none	86.9	94.7		67.8	6.4		73.6
Own one	88.7	96.8		67.4	2.6		74.8
Own two or more	82.8	97.8		58.8	11.0		68.6
(Beta)	0.06	0.07		0.08	0.11		0.05
4 <i>Woman's work status</i>							
Does not work	86.3	95.0		63.9	5.7		74.0
Works	86.5	97.1		68.8	8.2		70.8
(Beta)	0.00	0.05		0.05	0.05		0.04
Multiple R squared	0.01	0.01		0.02	0.04		0.01
B Husbands	80.9	95.0	19.3	76.0	14.9	59.6	55.3
1 <i>Family size</i>							
2-3 children	75.6	95.2	20.9	81.3	16.4	62.4	47.3
4-6 children	84.6	95.0	18.4	71.6	13.7	57.9	60.7
7+ children	85.1	93.0	16.4	77.8	15.3	54.1	64.4
(Beta)	0.11	0.02	0.04	0.11	0.04	0.05	0.14
2 <i>Parental education</i>							
None	82.3	94.6	20.8	79.5	11.2	51.5	61.0
Woman none, husband prim/+	82.1	94.5	16.8	75.1	14.4	61.4	53.7
Woman, husband prim/prim+	77.1	96.0	20.9	73.0	20.1	67.1	50.6
(Beta)	0.05	0.03	0.05	0.06	0.10	0.13	0.09
3 <i>Ownership of consumer durables</i>							
Own none	82.6	95.7	22.7	77.5	9.1	52.9	58.8
Own one	81.7	94.8	19.0	73.1	16.5	63.7	53.5
Own two or more	75.5	93.0	10.2	74.4	29.9	74.7	47.5
(Beta)	0.07	0.05	0.13	0.04	0.23	0.18	0.09
4 <i>Woman's work status</i>							
Does not work	80.6	94.9	21.2	75.2	16.3	60.6	52.2
Works	81.5	95.1	16.4	71.3	12.8	57.9	60.3
(Beta)	0.01	0.00	0.06	0.02	0.05	0.03	0.08
Multiple R squared	0.03	0.00	0.08	0.02	0.10	0.11	0.06

Does family size affect parents' economic attitudes? Table 11 presents these relationships, adjusted for parental education, number of consumer goods owned by the household, mother's work, status and mother's age. Here we see gender differences of a different kind. For women, by and large, family-size does not affect economic attitudes. Women in small families are only marginally less likely to expect old-age support (84 per cent compared with 88 per cent and 90 per cent) and co-residence (94 per cent compared to 97 per cent in both larger family groups) and about as likely to expect to rely on their own resources (8 per cent compared with 6 per cent and 5 per cent). They are, however, considerably less likely to have experienced that child rearing costs have inhibited them from making other, non-child purchases (69 per cent compared with 75 per cent and 81 per cent.)

Husbands in small families consistently report more self-reliant economic attitudes than husbands in large families. Fewer of them expect to rely on their sons in the future (76 per cent compared with 85 per cent in both larger sized families); slightly more of them are aware of the need to save for old-age and adversity (82 per cent compared with 72 and 78 per cent); and an equal proportion expect to rely on their own resources (16 per cent compared with 14 and 15 per cent). Like their wives, considerably fewer husbands in small families have found child rearing costs prohibitive enough to dissuade them from making other non-child purchases (47 per cent compared with 61 and 64 per cent, respectively). The one attitude that is almost universally maintained among husbands in small and large families alike is their expectations regarding co-residence with children in the future (95, 95, and 93 per cent of the three groups, respectively).

Table 11 also shows, as expected, that parental reliance on children for future support and their reliance on their own resources are independently influenced by both education and economic status. Unadjusted means (not shown here) also indicate that moderate family size differentials persist at each socio-economic level suggesting once more a certain consistency in the pattern. Beta coefficients suggest that some expectations, such as those pertaining to old age support from sons and child cost experience are equally or more sensitive to family size than to any other socio-economic indicator. Nevertheless, it must be pointed out that these variables together account for very little of the total variance, especially for women, and the results have to be interpreted in this light.

Parental strategies for the future are probably changing as a result of fewer children. The evidence provided here leads us to conclude, as Caldwell et al (1984) did, that

the large majority of parents in small families continue to rely on sons for future support—both economic and residential—but now rely on few but better educated sons. Evidence in support of a shift towards greater self-reliance however is weaker, though differentials are in the expected direction, especially among husbands. This is hardly surprising, given the continuing economic dependency of women.

CONCLUSION

This analysis of the situation of children in small and large families has addressed three basic issues. With the increased resources per capita available to parents as a result of fewer children, are children in small families more likely to be educated and reach educational milestones such as a primary or middle school education? Are they less likely to be required to work on the family farm, in housework, or in wage labour? And finally, have parental expectations changed from a focus on children for future economic and residential support to increased economic self-reliance? The answers to these three questions are summarised in Table 12.

Before coming to the correlates of family-size, it must be pointed out that by far the most important determinants of children's educational attainment and work status and their parents' expectations of them are parental education, followed by economic status. Though relatively weaker, our findings suggest nevertheless, that family-size has a consistent effect on the situation of children in general and on their gender roles in particular.

As far as education is concerned, the results have shown that parents with few children in rural Maharashtra allocate resources on education disproportionately among their sons, and irrespective of family size, on the eldest sons, rather than equally among all children, irrespective of sex. Boys in small families are more likely than boys in large families to attain educational milestones such as a primary and middle school education; and eldest sons more likely than younger sons to do so. In contrast, however, small family size does not enhance the educational attainment of girls and may even act as a deterrent to their attainment of a middle school education. In fact, having daughters may in fact enhance the chances of sons attaining educational milestones. This is consistent with the kinds of values attached to the education of girls.

In the case of child labour, similarly, the advantages of a small family are observed—but again for sons and not for all children uniformly. Boys in small families are about as likely to work as boys in large families, but they spend considerably less time working. In contrast, girls in small families continue to work about as much in housework as

girls in large families, but they now spend considerably more time in non-domestic work than girls in large families or boys in small families do. The burden of work in each family size falls primarily on the eldest daughters, whose presence thereby enhances the chances that her brothers will be educated and freed from work responsibilities.

Gender disparities in education and work are wide but suggest a consistent pattern. It appears that the additional resources available to parents of few children are expended in educating sons (especially the eldest) and freeing them from contributing their labour to the household economy. In contrast, the situation of daughters, at least at the stage of the transition that we have captured continues to be unchanged and in some ways worse. Daughters in small families are no more likely to be educated than those in large families; and with the shrinking labour supply of sons to perform non-domestic activity (both as a result of small family-size and by virtue of the fact that boys are now more likely to be engaged in education), shortfalls are taken up by daughters—and especially older daughters. At the cost of

TABLE 12: DIRECTION OF RELATIONSHIPS BETWEEN FAMILY SIZE AND OUTCOMES FOR CHILDREN

	Total	Boys	Girls
A Education			
1 Current attendance	--	(-)	--
2 Primary school achievement	--	--	(-)
3 Middle school achievement	--	--	(+)
B Work			
<i>Proportions working:</i>			
1 Any activity	*	*	*
2 Housework	*	--	*
3 Non-domestic work	*	*	*
<i>Time spent:</i>			
1 Any activity	+	+	*
2 Housework	+	+	*
3 Non-domestic work	*	+	--
C Economic attitudes of parents			
<i>Women's expectations:</i>			
1 Economic support from sons	(+)		
2 Residential support of sons	(+)		
3 Economic self-reliance	(-)		
4 Costs of children interfere with other purchases	+		
<i>Husbands' expectations:</i>			
1 Economic support from sons	+		
2 Residential support from sons	*		
3 Economic self-reliance	(-)		
4 Costs of children interfere with other purchases	+		

Notes: + large families have higher value
 -- small families have higher value
 * no difference between small and large families
 () observed differences weak

securing an education, these daughters now spend considerably more time than either girls in large families or their brothers in small families in working on the family farm and in wage labour. A milder and different kind of substitution (in that it has not disadvantaged sons in any way), is the greater involvement of boys in small families (versus those in large families) in housework. Even so, the time spent is considerably less than that spent on housework by boys in large families and time spent by both proportions working in non-domestic activities; and time involvement in housework continues to be far less than that of girls.

Finally, the economic attitude of parents and their expectations for the future seem to be moderately affected by family size. One feature that has not changed is parental reliance on sons for the future, both economic and residential. At the same time, among men, there is a weak but definite shift towards economic self-reliance. Men appear to be hedging their bets, increasingly relying on more than one option for future economic security. We are led to conclude then, as Caldwell et al (1984) did, that the shift from large to small families implies a shift from a reliance on many sons of indifferent quality to fewer but better educated sons, rather than a shift away from children altogether and towards greater self-reliance.

We conclude on a speculative note. To what extent are these disparities indicative of an early stage of what we might call a transition in consequences of small family size? It is possible that parents (more likely fathers at this stage), faced with additional resources as a result of lower fertility, will first invest those resources in what is known to bring the highest returns—their sons, and above all, their elder sons. This involves a greater investment in the education of sons and, simultaneously, their withdrawal from the household labour force. In this process, daughters are increasingly burdened with the non-domestic work from which sons have been freed. This shift to non-domestic work among increasing numbers of girls may have the unintended effect of increasing their access to and control over resources and enhancing their positions as economic assets to the household. If so, at the next phase of this transition, education of daughters may become more of a priority and opportunities to look to their own resources for future economic support more realistic. In the meantime, however, we are faced with the alarming possibility that with the increasing prevalence of small families, gender disparities in child rearing will widen.

Notes

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- 1 The survey was conducted in 29 villages of rural Bhiwandi and 11 of rural Wada from December 1983 to March 1984. Bhiwandi is located 16 kilometres from Thane and 51 kilometres from Greater Bombay while Wada is 58 and 93 kilometres away, respectively. Households were selected from the two taluks by simple random sampling, proportionate to population. Villages were stratified by population and selected randomly from each stratum. A total of 1997 households were investigated. The study was also conducted in the urban areas of these two blocks but, for the purposes of this study, this sample is excluded. Interviews took place at the convenience of the respondent and every attempt was made to maximise privacy. Coding, validation, and analysis of the data were undertaken under the supervision of the principal investigators. It must be acknowledged at the outset that in the original study, value and disvalue indicators were considered as factors intervening between social and economic characteristics and both the demand for children and contraceptive behaviour; they were not envisaged as consequences of family-size. But we did realise that some factors could operate both as determinants and consequences of fertility. For example, the absence of the expected negative association between women's economic activity and fertility is possibly because women with many children are compelled to enter the labour force; a similar argument can be made for child labour.
- 2 Women are considered to be working if they report their occupation as working on the family farm or business or in other farm or non-farm work and earning wages, either in cash or in kind.
- 3 Three husbands were not available for interview.
- 4 Disparities in educational attainment and work status by gender and family size widen when the analysis is restricted to sterilised women—that is, women who have completed their child bearing (half and three-fifths of small and large family couples, respectively). Here again (results not presented here), boys in small families are more likely to have attained educational milestones and are less likely to work than those in large families. Disparities are in fact wider than when all women are considered, but numbers become quite small.
- 5 There is also some evidence that shortfalls in the non-domestic labour requirements in small families are met not only by daughters but also by women themselves, breaking down the traditional gender-specific segmentation of the rural labour market. Women with few children are somewhat more likely to work than those with many children (44 per cent and 36 per cent, respectively) and this is also true for women working for wages (28 per cent, and 22 per cent, respectively).

tively). However, the time contribution of working women is unaffected by family size: 234 days for all working women and 204 days for wage workers. These relationships remain undisturbed when adjusted to control, using Multiple Classification Analysis, for the effect of parental education, economic status, and maternal age.

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Inflation and the Wholesale Price Index

O P Mall

Examining the present methodology of compilation of the wholesale price index and the issues emerging out of the use of a remote base series, a weighting diagram of the current WPI series has been derived for the year 1988-89 to study the changes in structure of wholesale markets in the country during the last one decade. Due to data constraints, the weighting diagram has been derived from subgroup-level upwards in case of 'Manufactured Products' and commodity-level upwards in case of 'Primary Articles'. The structure so derived is significantly different from the one which prevailed in 1981-82.

THE official measure of inflation in the Indian economy is based on the Wholesale Price Index (WPI) for 'All Commodities' with the base 1981-82=100. Also, the price indices at disaggregated levels for groups/subgroups/items of commodities are used for a wide range of purposes like formulation and implementation of economic policies, deflating the nominal macro-economic aggregates to arrive at their real levels, forecasting of variables for which prices are leading indicators, working out price escalation for various ongoing projects to revise the levels of investment, etc. Though the price changes in the services sector are not directly accounted for in the WPI, they are largely influenced by the inputs for industrial sector and, therefore, variations in WPI are considered an accepted indicator of change in the general price level in the economy.

The official WPI series, compiled weekly, is revised periodically to take into account the structural changes in the wholesale markets over the years in terms of commodity-mix and prices so that the series faithfully reflects the changing structure of the commodity markets and the changes in varieties of commodities in the wholesale markets. In the post-independence era, the official WPI series has been revised with base years 1952-53=100, 1961-62=100, 1970-71=100 and 1981-82=100. Due to refinements in the methodology and changes in coverage, with each revision, the indices with different base years have shown moderately different patterns of price changes even when compiled for a common period. Table 1 shows the different rates of increases (semi-log trend) for such common periods.

The existing official series of Index Numbers of Wholesale Prices with base 1981-82=100 replaced the earlier series with base 1970-71=100 in July 1989. The revised series contained several distinct improvements over the earlier series in terms of coverage of commodities/varieties/grades/markets/quotations, etc. A major methodological deviation in the revised series has been in the case of agricultural commodities. The revised series has mostly used the *marketed* (the aggregate quantity transacted in the wholesale market) *surplus ratios* instead of *marketable surplus ratios*

of agricultural commodities as applicable in the case of earlier series. This was done on the presumption that it was the quantity actually transacted that affected the wholesale prices in the market. The use of marketed surplus instead of marketable surplus was the major reason for drastic reduction in the weight of the 'Food Articles' group from 29.799 in 1970-71 series to 17.386 in 1981-82 series. As a result, changes in the prices of 'Food Articles' have a milder impact on the WPI for 'All Commodities' in the revised series when compared with the earlier series. A comparative statement of the number of items and number of quotations at Major Group/Group level between the two series is presented in Table 2.

The weighting diagram of the WPI series is based on the volume of wholesale transactions of commodities during the new base year 1981-82. However, the 80s have seen major structural changes in the Indian economy. Table 3 shows the shares of the three sectors in gross domestic product (GDP)—agriculture, industry and services—for selected periods. It may be seen that the share of the industrial sector (mining and quarrying, manufacturing, electricity, gas and water supply and construction) has gone up from 25.9 per cent in 1980-81 to 27.5 per cent in 1990-91 whereas the share of the agricultural sector (agriculture, forestry and fishing) has declined from 38.1 per cent to 32.4 per cent over the same period. This has to be seen in combination with the higher growth rate in GDP during the 1980s which makes the difference even wider in absolute terms. Table 4 presents annual compound growth rates in selected sectors of the economy for different periods. The growth rate of GDP in the 1980s was 5.53 per cent compared to the growth rates of 3.70 per cent and 3.08 per cent in the '60s and 70s', respectively. Also the growth rates for agriculture and manufacturing sectors were 3.58 per cent and 7.78 per cent, respectively, in the 80s whereas the corresponding rates for the 60s were 2.22 per cent and 5.23 per cent and, for the 70s, these rates were 1.69 per cent and 4.02 per cent, respectively. The uneven growth in various sectors of the economy contributed to the structural changes in the wholesale markets also.

By the time the revised series was implemented in July 1989, there had already

occurred a significant shift in the structure of the wholesale markets in the country and the manufactured products had a larger share in the volume of transactions at the cost of primary products. However, inflation continues to be measured on the basis of the structure of wholesale markets as it prevailed in 1981-82.

In this article, an attempt has been made to test the validity of using the present WPI series for measuring inflation by constructing an alternative WPI series with the weighting diagram based on the wholesale markets structure of 1988-89. The year 1988-89 has been chosen because it was a normal year and is also the latest year for which the summary data for the CSO's Annual Survey of Industries (ASI) are available (ASI data is the major input for determination of the WPI weighting diagram).

METHODOLOGY

For preparation of the weighting diagram, the methodology contained in the report of the Working Group on the revision of WPI (December 1988) has been adopted in principle. The weighting diagram has been revised from commodity-level upwards in the case of 'Primary Articles' whereas in the case of other major groups the exercise was done from subgroup level upwards as detailed data were not available for all the commodities for the year 1988-89.

Weights have been assigned on the basis of the volume of wholesale transactions of selected items in the economy during 1988-89. In case of non-selected items, the value of transactions has been merged with those of the selected items having similar characteristics and price behaviour.

TABLE 1: ANNUAL WPI GROWTH RATES* FOR SELECTED PERIODS

Period	Old Base New Base	
	1952-53	1961-62
1961-62 to 1968-69	8.67	8.22
	1961-62	1970-71
1961-62 to 1968-69	10.65	11.08
	1970-71	1981-82
1961-62 to 1968-69	6.35	6.12

Semi-log trend growth rates.

In the case of agricultural sector, the weights are based on the value of marketed/ marketable surplus for the triennium ended 1988-89 (at 1988-89 prices). Commodities have been assigned weights on the basis of the value of production based on the CSO's data on National Accounts Statistics (NAS), to which the ratios of marketed/marketable surplus for the year 1981-82 were applied (these ratios were not available for 1988-89 and the 1981-82 ratios as published in the Working Group report were used).

In case of the 'minerals' group, data on the value of output for triennium ended 1988-89 published in NAS were used (at 1988-89 prices) for determining the weights.

For all other non-agricultural commodities, the value of transactions consisted of the value of output, value of imports (including import duties), if any, and the value of excise duties, if applicable. The data on value of production for the organised sector were collected for the ASI summary results for the factory sector at the 3-digit level of National Industrial Classification (NIC). For the unorganised sector, the ratios of value of output to value added were obtained for each group from the results of the 1984-85 surveys of Own Account Enterprises (OAEs) and Non-Directory Manufacturing Establishments (NDMEs) and Directory Manufacturing Establishments (DMEs). These ratios were applied to the NAS data on value added to get the groupwise value of output for the unregistered manufacturing sector. The DGCI data was used for the value of imports. For custom, excise and other duties, the revenue (actual) details from the union budget were used.

The weights were derived at the 3-digit level of NIC (subgroup level) as the results for the 4-digit level (commodity-level) were not available. Due to non-availability of data, in the process of arriving at the weighting diagram, certain minor adjustments were made including allocation of value of output for certain items on the basis of 1981-82 weights. However, the extent of such adjustments was kept minimal. For example, for the NIC industry groups 210 (manufacture of hydrogenated oils, vanaspathi, ghee, etc), and 211 (other edible oils and fats), the total weight of 1.8916 for 1988-89 was apportioned between 'edible oils' and 'oil cakes' using the ratio 2.445:0.432 which are the weights for 1981-82 series for the respective subgroups.

The weights thus derived are presented in Table 5. The weights for the two series with the years 1970-71 and 1981-82 as base are also given to present a comparative picture. The derived weights have also been used to build up the group/major group/all commodities-level indices by using the subgroup level indices as available in the 1981-

TABLE 2: COMPARATIVE STATEMENT OF THE NUMBER OF ITEMS AND NUMBER OF QUOTATIONS AT MAJOR GROUP/GROUP LEVEL BETWEEN THE WPI SERIES WITH BASES 1970-71 AND 1981-82

Major Group/Group	Weights		No of Items		No of Quotations	
	1981-82 Series	1970-71 Series	1981-82 Series	1970-71 Series	1981-82 Series	1970-71 Series
All Commodities	100.000	100.000	447	360	2371	1295
I Primary Articles	32.295	41.667	93	80	519	411
(A) Food articles	17.386	29.799	44	39	320	264
(B) Non-food articles	10.081	10.621	28	26	132	115
(C) Minerals	4.828	1.247	21	15	67	32
II Fuel, Power, Light and Lubricants	10.663	8.459	20	10	73	30
III Manufactured Products	57.042	49.874	334	270	1179	854
(A) Food products	10.143	13.322	45	37	231	117
(B) Beverages, tobacco and tobacco products	2.149	2.708	7	8	39	19
(C) Textiles	11.545	11.026	27	12	120	99
(D) Wood and wood products	1.198	0.174	2	4	14	13
(E) Paper and paper products	1.988	0.851	11	4	73	16
(F) Leather and leather products	1.018	0.385	3	4	26	18
(G) Rubber and plastic products	1.592	1.207	13	7	73	42
(H) Chemical and chemical products	7.355	5.548	77	67	428	182
(I) Non-metallic mineral products	2.477	1.415	22	21	125	63
(J) Basic metals, alloys and metal products	7.632	5.974	57	42	235	125
(K) Machinery and machine tools	6.268	5.045	44	35	226	204
(L) Transport equipment and parts	2.705	1.673	22	21	118	39
(M) Other miscellaneous manufacturing industries	0.972	0.546	4	8	30	17

TABLE 3: SHARE OF VARIOUS SECTORS IN THE GROSS DOMESTIC PRODUCT FOR DIFFERENT YEARS (at current prices)

Sector	1960-61	1970-71	1980-81	1990-91
Agriculture	45.8	45.2	38.1	32.4
Industry	20.7	21.2	25.9	27.5
Services	33.5	33.6	36.0	40.1

Source: National Accounts Statistics, Central Statistical Organisation.

TABLE 4: ANNUAL COMPOUND GROWTH RATES IN GDP FOR SELECTED INDUSTRIES FOR DIFFERENT YEARS

(at 1980-81 prices)

Sector	1950-51 to 1960-61	1960-61 to 1970-71	1970-71 to 1980-81	1980-81 to 1990-91
Agriculture	3.29	7.22	1.69	3.58
Mining and quarrying	5.59	3.91	4.89	7.78
Manufacturing	6.04	5.23	4.02	7.38
Electricity, gas and water supply	10.30	1.14	6.79	8.76
Total	3.91	3.70	3.08	5.53

Source: National Accounts

Central Statistical Organisation.

82 series with the 1988-89 indices scaled to 100. This imposes the assumption that within the subgroups, there have been no structural changes. To admit, the 4-digit data for 1988-89, if available, would have given a more reliable series of indices. The all commodities/major group/group level indices for the series with 1988-89 and 1981-

82 weights (both series with 1988-89 indices as 100) are presented in Table 6. The rates of annual price increase on the basis of the two series are given in Table 7 for major group/group levels. Also, the monthly indices with 1988-89 base for 'all commodities' for the period April 1989 to March 1993 are presented in Table 8.

OBSERVATIONS

From Table 1, it can be seen that the structure of wholesale markets in India changed significantly during the 7-year period between 1981-82 and 1988-89. This reinforces the trend established during the period 1970-71 and 1981-82 when the share

TABLE 5: WEIGHTING DIAGRAM FOR WHOLESALE PRICE INDEX CONSIDERING THE MARKET STRUCTURE OF 1970-71, 1981-82 AND 1988-89

Commodity Names	1970-71 Weights	1981-82 Weights	1988-89 Weights	Commodity Names	1970-71 Weights	1981-82 Weights	1988-89 Weights
All Commodities	100.000	100.000	100.0000	(E) Paper and Paper Products	0.857	1.988	1.9288
I Primary Articles	41.667	32.295	26.1039	a Paper and pulp	—	0.808	0.9298
(A) Food Articles	29.799	17.386	13.3632	b Manufacture of board	0.125	0.440	0.3555
a Foodgrains	12.922	7.917	4.2328	c Printing and publishing of NPs, etc	—	0.740	0.6435
b Fruits and vegetables	6.132	4.089	2.8876	(F) Leather and Leather Products	0.385	1.018	0.6040
c Milk	4.519	1.961	3.6078	(G) Rubber and Plastic Products	1.207	1.592	3.1286
d Eggs, fish and meat	1.897	1.783	1.7121	a Tyres and tubes	0.984	0.766	1.2857
e Condiments and spices	1.094	0.947	0.5885	b Plastic products	—	0.442	0.4077
f Other food articles	1.604	0.689	0.3344	c Other rubber and plastic products	—	0.384	1.4352
(B) Non-Food Articles	10.621	10.081	10.3389	(H) Chemicals and Chemical Products	5.548	7.355	10.0356
a Fibres	3.173	1.791	1.2185	a Basic heavy inorganic chemicals	0.726	0.764	1.2902
b Oilseeds	4.201	3.861	2.2880	b Basic heavy organic chemicals	—	0.452	1.3338
c Other non-food articles	3.247	4.429	6.8324	c Fertilisers and pesticides	—	1.950	2.0852
(C) Minerals	1.247	4.828	2.4018	d Paints, varnishes and lacquers	0.192	0.240	0.5796
a Metallic minerals	0.229	0.231	0.1941	e Dyestuffs and indigo	—	0.336	0.0215
b Other minerals	0.416	0.323	0.2528	f Drugs and medicines	0.983	1.065	1.5071
c Petroleum crude and natural gas	0.602	4.274	1.9550	g Perfumes, cosmetics, toiletries, etc	0.586	1.215	0.8768
II Fuel, Power, Light and Lubricant	8.459	10.663	10.7593	h Turpentine, synthetic resins, plastic materials	0.830	0.477	0.8517
a Coal mining	1.147	1.256	1.5696	i Matches, explosives, inedi- ble oils and other chem	0.709	0.856	1.4877
b Mineral oils	4.912	6.666	5.1834	(I) Non-Metallic Mineral Products	1.415	2.477	2.8594
c Electricity	2.400	2.741	4.0063	a Structural clay products	0.182	0.695	0.3538
III Manufactured Products	49.874	57.042	63.1367	b Glass, earthenware, chinaware and their products	0.294	0.296	0.3953
(A) Food Products	13.222	10.143	8.9185	c Cement, lime and plaster	0.707	0.916	1.6199
a Dairy products	0.388	0.642	0.9239	d Mica products	—	0.041	0.0258
b Canning and preserving of fruits and vegetables	0.039	0.068	0.0533	e Cement, slate and graphite products	—	0.529	0.4646
c Canning, preserving and processing of fish	0.036	0.126	0.1266	(J) Basic Metals, Alloys and Metal Products	5.974	7.632	11.5574
d Grain mill products	0.464	1.530	1.8691	a Basic metals and alloys	4.651	4.784	7.8025
e Bakery products	0.185	0.242	0.2196	b Non-ferrous metals	1.178	1.025	1.8991
f Sugar, khandasari and gur	7.241	4.059	2.1098	c Metal products	1.323	1.823	1.8557
g Manufacture of common salt	—	0.035	0.0141	(K) Machinery and Machine Tools	5.045	6.268	10.0817
h Cocoa, chocolate, sugar and confectionery	0.053	0.088	0.1414	a Non-electrical machinery and parts	3.091	3.277	4.8787
i Edible oils	3.716	2.445	1.6076	b Electrical machinery	1.954	2.991	5.2030
j Oil cakes	0.905	0.432	0.2840	(L) Transport Equipment and Parts	1.673	2.705	4.1556
k Tea and coffee processing	—	0.236	0.7316	a Locomotives, railway wagons and parts	—	0.274	0.6648
l Other food products nec	0.295	0.240	0.8376	b Motor vehicles, motor- cycles, scooters, bicycles	—	2.431	3.4909
(B) Beverages, Tobacco and Tobacco Products	2.708	2.149	1.5811	(M) Other Miscellaneous Manufacturing Industries	0.546	0.972	0.6983
a Wine industries	0.677	0.099	0.2069				
b Malt liquor	—	0.059	0.1572				
c Soft drinks and car- bonated water	0.082	0.066	0.1169				
d Manufacture of bidi, cigarettes, tobacco and zarda	1.949	1.925	1.1001				
(C) Textiles	11.026	11.545	7.1765				
a Cotton textiles	8.102	6.093	3.1063				
b Man-made textiles	—	2.921	2.1010				
c Woollen textiles	0.244	0.339	0.3829				
d Jute, hemp and mesta textiles	1.214	0.689	0.4083				
e Manufacture of textiles nec	0.183	1.503	1.1781				
(D) Wood and Wood Products	0.174	1.198	0.4112				

TABLE 6: INDEX NUMBERS OF WHOLESALE PRICES FOR THE YEARS 1989-90 TO 1992-93 (1988-89 = 100)

Commodity Name	Weights		WPI Based on 1981-82 Weights				WPI Based on 1988-89 Weights			
	1981-82	1988-89	1989-90	1990-91	1991-92	1992-93	1989-90	1990-91	1991-92	1992-93
All Commodities	100.000	100.000	107.4	118.4	134.7	148.2	107.6	117.9	132.8	145.3
I Primary Articles	32.295	26.104	102.2	115.5	136.4	146.5	103.1	115.4	133.5	140.5
(A) Food articles	17.386	13.363	101.2	113.3	136.3	153.0	102.5	113.0	134.0	145.2
(B) Non-food articles	10.081	10.339	103.6	121.2	142.9	142.8	103.8	119.6	137.1	139.8
(C) Minerals	4.828	2.402	103.7	110.5	115.1	117.7	103.7	110.7	115.1	117.7
II Fuel, Power, Light and Lubricants	10.663	10.759	103.6	116.3	131.5	150.2	103.8	116.0	130.9	149.3
III Manufactured Products	57.042	63.137	111.2	120.6	133.9	148.8	110.5	119.5	132.8	146.8
(A) Food products	10.143	8.918	111.8	122.9	139.4	151.4	113.1	124.6	142.3	156.2
(B) Beverages, tobacco and tobacco products	2.149	1.581	115.1	134.0	146.9	162.5	112.9	129.3	141.2	155.0
(C) Textiles	11.545	7.177	113.4	122.6	134.7	143.8	111.7	122.2	132.9	141.1
(D) Wood and wood products	1.198	0.411	100.7	101.6	101.9	203.2	100.7	101.6	101.9	203.2
(E) Paper and paper products	1.988	1.929	115.3	122.9	143.8	172.1	116.0	123.6	143.3	166.1
(F) Leather and leather products	1.018	0.604	110.3	133.2	139.4	135.5	110.3	133.2	139.4	135.5
(G) Rubber and plastic products	1.592	3.129	102.7	106.2	109.5	119.9	103.8	107.6	111.1	125.4
(H) Chemical and chemical products	7.355	10.036	103.1	108.9	123.9	141.8	103.1	108.9	123.0	140.5
(I) Non-metallic mineral products	2.477	2.859	109.4	121.8	140.9	152.8	109.0	124.2	141.1	150.8
(J) Basic metals, alloys and metal products	7.632	11.557	116.6	124.7	132.8	145.5	116.0	123.6	131.4	144.1
(K) Machinery and machine tools	6.268	10.082	110.3	119.5	137.8	152.9	110.1	119.1	137.3	152.3
(L) Transport equipment and parts	2.705	4.156	111.6	121.8	135.9	146.5	111.6	122.0	136.4	147.1
(M) Other miscellaneous manufacturing industries	0.972	0.698	103.6	105.3	113.1	122.7	103.6	105.3	113.1	122.7

TABLE 7: ANNUAL WPI GROWTH RATES FOR THE YEARS 1989-90 TO 1992-93

Commodity Group	Weights		WPI Growth Rates for 1981-82 Series				WPI Growth Rates for 1988-89 Series			
	1981-82	1988-89	1989-90	1990-91	1991-92	1992-93	1989-90	1990-91	1991-92	1992-93
All Commodities	100.000	100.000	7.39	10.26	13.74	10.06	7.62	9.58	12.58	9.45
I Primary Articles	32.295	26.104	2.19	13.02	18.06	7.47	3.11	11.90	15.70	5.27
(A) Food articles	17.386	13.363	1.24	11.88	20.29	12.31	2.50	10.22	18.60	8.35
(B) Non-food articles	10.081	10.339	3.62	16.99	17.92	-0.13	3.76	15.23	14.68	1.95
(C) Minerals	4.828	2.402	3.65	6.65	4.13	2.29	3.65	6.81	3.94	2.30
II Fuel, Power, Light and Lubricants	10.663	10.759	3.57	12.26	13.08	14.24	3.82	11.76	12.86	14.05
III Manufactured Products	57.042	63.137	11.21	8.42	11.05	11.13	10.52	8.15	11.09	10.56
(A) Food products	10.143	8.918	11.84	9.92	13.43	8.59	13.06	10.19	14.25	9.74
(B) Beverages, tobacco and tobacco products	2.149	1.581	15.11	16.44	9.58	10.66	12.91	14.50	9.20	9.79
(C) Textiles	11.545	7.177	13.40	8.15	9.81	6.76	11.71	9.38	8.79	6.12
(D) Wood and wood products	1.198	0.411	0.70	0.89	0.31	99.37	0.70	0.89	0.31	99.37
(E) Paper and paper products	1.988	1.929	15.31	6.62	17.00	19.68	16.00	6.54	15.99	15.90
(F) Leather and leather products	1.018	0.604	10.33	20.72	4.68	-2.81	10.33	20.72	4.68	-2.81
(G) Rubber and plastic products	1.592	3.129	2.70	3.39	3.15	9.47	3.81	3.66	3.24	12.83
(H) Chemical and chemical products	7.355	10.036	3.09	5.64	13.73	14.51	3.12	5.57	13.01	14.18
(I) Non-metallic mineral products	2.477	2.859	9.38	11.34	15.68	8.43	8.96	14.01	13.57	6.91
(J) Basic metals, alloys and metal products	7.632	11.557	16.61	6.90	6.50	9.56	15.98	6.54	6.32	9.71
(K) Machinery and machine tools	6.268	10.082	10.28	8.36	15.32	10.97	10.08	8.16	15.29	10.98
(L) Transport equipment and parts	2.705	4.156	11.62	9.09	11.58	7.81	11.61	9.30	11.83	7.85
(M) Other miscellaneous manufacturing industries	0.972	0.698	3.63	1.62	7.39	8.52	3.63	1.62	7.39	8.52

of 'primary articles' had gone down in favour of 'manufactured products'. Between 1981-82 and 1988-89, the weight of 'primary articles' further declined from 32.295 per cent to 26.104 per cent whereas the weight of 'manufactured products' increased from 57.042 per cent to 63.137 per cent. This is in consistency with a slower growth in the primary sector of the economy. Within the primary sector, the weight of 'minerals' group fell sharply which was perhaps caused by a decline in the prices of crude petroleum in 1988-89 when the prices of other items had gone up (compared to the 1981-82 level). In the case of 'textiles' group under the major group 'manufactured products', the recession in textile industry during the late-80s is reflected in the weighting diagram. The weight for the other major group 'fuel, power, light and lubricants' registered a marginal increase from 10.663 per cent to 10.759 per cent.

In addition to using a weighting diagram based on relatively old market structure, the current WPI series has, of late, been suffering from the deficiency of using obsolete quotation agencies, i.e., the sources for quotations that do not reflect the wholesale prices and, in certain cases, do not exist at all. Although a large number of specifications/sources for quotations used in the present series are still valid, the outdated specifications/quotations make the series less reliable. The major group 'manufactured products' is in general maled up with deficiencies such as the obsolete quotations taken from the market leaders for those commodities in the early 1980s who are not necessarily the top manufacturers in the early 1990s. To cite an example, much before the present WPI series was implemented in July 1989, quotations for the items 'steel wire' and 'wires' were not available (since January 1987) and the same are not considered in compilation of WPI. In case of the item 'motorcycles', prices of the following seven specifications are considered: (i) Yezdi 250cc classic, (ii) 250cc Road King, (iii) AC11-115, (iv) GTS-116, (v) AC-123, (vi) Enfield Motorcycle 350cc/Bullet, and (vii) motorcycle, mini. As the present-day market leaders in case of the product like Hero-Honda, Ind-Suzuki, Rajdoot-Yamaha and Kawasaki-Bajaj/other fuel-efficient motorcycles are not considered, the price change in these specifications will have no direct impact on the WPI. In another case, for 'car chassis (assembled)', the following two specifications are used: (i) Premier Padmini car, and (ii) Hindustan Ambassador-Mark IV. The change (+ve or -ve) in the cost of Maruti (present-day market leaders) has no direct impact on the WPI. Similarly, in the case of 'computing machines', the only specification included is 'DCM Calculator MOSCAL 1211'

and the price change for personal computers (PCs) has no impact on WPI.

To make the series more representative, in the present WPI series, 'every effort was made to obtain price data from as many sources and on as many representative grades as possible', as is clear from Table 2. This effort in making the series more broad-based has its own problems as the series has outlived its life-span and certain commodi-

ties/specifications have subsequently gone out of the commodity market. Simple calculations show that to overcome the problem of non-receipt of quotations of all specifications under a commodity, the weight assigned to that commodity is split among the other commodities under the same subgroup in proportion to their weights which is an acceptable solution. On the other hand, in cases where the price quotations of some

TABLE 8: MONTHLY WPI—'ALL COMMODITIES' WITH 1981-82 AND 1988-89 WEIGHTS (1988-89=100) (April 1989 to March 1993)

Months		WPI With		Point-to-Point Growth	
		1981-82 Weights	1988-89 Weights	1981-82 Weights	1988-89 Weights
April	1989	102.7	103.5		
May	1989	104.0	104.5		
June	1989	105.0	105.2		
July	1989	106.0	106.0		
August	1989	108.0	107.6		
September	1989	109.1	108.5		
October	1989	109.1	109.1		
November	1989	108.6	108.9		
December	1989	108.0	108.6		
January	1990	108.9	109.4		
February	1990	109.4	109.7		
March	1990	110.2	110.6		
April	1990	112.1	112.0	9.15	8.26
May	1990	113.0	112.8	8.67	7.91
June	1990	114.6	114.3	9.20	8.68
July	1990	116.2	115.6	9.60	9.00
August	1990	116.8	116.2	8.10	7.99
September	1990	117.2	116.7	7.49	7.50
October	1990	118.8	118.2	8.91	8.39
November	1990	120.0	119.5	10.51	9.70
December	1990	120.9	120.6	12.00	11.00
January	1991	122.9	122.3	12.86	11.79
February	1991	124.2	123.4	13.51	12.45
March	1991	124.2	123.7	12.70	11.78
April	1991	125.0	124.5	11.51	11.10
May	1991	126.2	125.5	11.76	11.32
June	1991	128.6	127.4	12.15	11.46
July	1991	131.4	129.8	13.11	12.29
August	1991	135.6	133.3	16.09	14.69
September	1991	136.4	133.9	16.31	14.80
October	1991	136.2	134.0	14.68	13.34
November	1991	137.7	135.6	14.75	13.49
December	1991	138.2	136.3	14.26	13.01
January	1992	139.5	137.5	13.55	12.44
February	1992	140.2	138.4	12.94	12.14
March	1992	141.1	139.7	13.56	12.92
April	1992	142.3	140.4	13.85	12.81
May	1992	143.6	141.2	13.76	12.50
June	1992	145.2	142.8	12.95	12.09
July	1992	146.9	144.1	11.74	11.03
August	1992	148.3	145.1	9.37	8.89
September	1992	149.5	146.8	9.65	9.65
October	1992	150.6	148.1	10.56	10.53
November	1992	150.2	147.9	9.09	9.03
December	1992	150.0	148.0	8.54	8.61
January	1993	149.3	147.6	6.97	7.35
February	1993	150.2	148.8	7.07	7.57
March	1993	150.7	148.5	6.80	6.31
Average	1988-89	100.0	100.0	—	—
Average	1989-90	107.4	107.6	7.39	7.62
Average	1990-91	118.4	117.9	10.26	9.58
Average	1991-92	134.7	132.8	13.74	12.58
Average	1992-93	148.2	145.3	10.06	9.45

(not all) specifications under a commodity are available, going by the present practice, the price quotations for the remaining specifications are "either repeated or estimated depending on the nature of commodity". However, in the simplest case of repetition, if eight specifications of a commodity are included in the index and all the eight of them record the same price rise but only six quotations are received then quotations for the two non-reporting specifications would be repeated from the last available quotations for those specifications and, therefore, the actual price increase for that item would be deflated by one-fourth while compiling the WPI. Theoretically, the problem of non-availability of quotations can be overcome by considering only those quotations which are available in the current period for the base period in compilation of the index. However, to make the series strictly comparable over the period, such a process would involve the revision of indices for the intermediate period which is not a feasible proposition.

CONCLUSIONS

On the basis of the above analysis, the following conclusions/suggestions are made on the current WPI series:

- (i) The structure of wholesale markets in 1988-89 has been found to be significantly different from the one which prevailed in 1981-82; needless to add that the weighting diagram obtained by considering the present (1992-93) wholesale market structure would be different from the 1988-89 weighting diagram derived here;
- (ii) In view of the problem of changed structure of the wholesale markets and non-availability of quotations for certain specifications, the actual inflation is likely to be different from the official estimates of inflation;
- (iii) In view of the changing scenario (including the types of manufactured products being transacted) in the wholesale markets which is likely to change even faster in the years to come, the problem of non-availability of quotations is to assume larger proportions in the future. Though revising the WPI series more frequently, say, on a quinquennial basis may address the problem, it will also involve large resources for determining the weighting diagram, organisation of price collection and compilation of indices; in addition, more frequent revision will be at the cost of long-term analyses by breaking the continuity of the series; and
- (iv) It would be worthwhile to evolve a methodology for replacement of commodities that become insignificant/outdated/non-available during the lifetime of a series; this is perhaps the most

important issue to be resolved by the compilers of the series.

Incidentally, the issue of periodic revision of the WPI series is already under consideration with the government setting up of a working group to make recommendations on the issues involved.

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Statistical Mirage of Poverty Alleviation

S M Vidwans

IN their paper 'Rural Poverty in the Semi-Arid Tropics of India' (*EPW*, March 20-27) R P Singh and P B R Hazell (SH for short) seek to provide "sound empirical evidence on who the poor are, how they can be easily identified, the determinants of their poverty and the likely effectiveness of alternative interventions". In their opinion, this evidence is required for the "efficient design of the targeted assistance schemes" such as the IRDP and the EGS. Making a multivariate analysis of data collected by ICRISAT, they demonstrate that certain policy interventions would be effective in reducing poverty—very dramatically, it would seem. They thus statistically conclude that though the "poverty problem is severe in these regions, ...it is not beyond solution". On examination of the statistical basis of SH's exercise, this critique points out that SH overlook one simple aspect of regression analysis which vitiates their conclusions and leads them to make exaggerated claims about reduction in poverty by their recommended policy interventions. Also, and predictably, their method of use of indicators for the identification of the poor fails in its objective.

DATA

SH have several years' data on income and other variables for 40 sample households in each of the two villages from every one of the five sample districts of Mahbubnagar, Sholapur, Akola, Sabarkantha and Raichur. They use head-count ratio as a measure of poverty, adopt per capita income of a household (averaged over 1981-83) as a criterion to define poverty, take Rs 950 as the poverty line, classify households on its basis as poor and non-poor, and study their characteristics in terms of income and certain relevant variables (their Tables 2 to 5). The statistical analysis of these data forms the basis of their conclusions and recommendations.

IDENTIFICATION OF THE POOR

SH perceive *accurate* identification of the poor as one of the most difficult problems in designing assistance programmes for them. Believing that certain well-chosen indicators will help solve this problem, they choose three: area of land owned, value of owned buildings (both per capita) and educational level of the head of the household, as more 'transparent' indicators of poverty. With a particular threshold value of an indicator, SH classify all households with indicator values below it as (indicated) poor, and the rest as non-poor. A double-dichotomy of the data: actually poor or non-

poor households, and the same two groups classified into indicated poor and non-poor, helps in judging the usefulness of the indicator. SH summarise the results for the three indicators and their different thresholds in their Table 4 in terms of two percentages, P_1 : the percentage of actually poor accounted for by the class of indicated poor, and P_2 : the percentage of the class which are actually non-poor. The base of P_1 is the poverty percentage in the district which is given in the paper, but that for P_2 is not given nor discussed resulting in a deficient discussion of the issue.

SH are not clear in describing the education indicator. While suggesting the adoption of the owned land indicator they observe that "...by selecting a threshold value of 0.67 ha per capita land it is possible to correctly identify 90 per cent of the poor households...and only 33 per cent of the households selected...will be actually non-poor (emphasis added)". They observe similarly about the indicator on owned buildings' value. They further add: "This level of leakage" i.e. 33 per cent, "is about the same as achieved (*sic*) by the Integrated Rural Development Programme". What should one conclude from this? That 33 per cent leakage should be considered as tolerable? That SH's solution does not solve the problem? Or, even though it does not, since it performs as poorly as the IRDP method, it should nonetheless be preferred because of the 'transparency' of their indicators? Or, do they redefine poverty in terms of the indicator itself as they seem to do in the concluding section of their paper?

But the situation is, in fact, worse. The budgeted cost of a poverty alleviation programme presumably accords with the expected poverty incidence, but the actual cost will depend upon the number of indicated poor. Their Table 4 or discussion on it omits one telling statistic, namely, the base of P_2 , and fails to throw light on the cost aspect. For Sholapur, with the threshold value of 0.67 ha per capita land, a poverty percentage of 42, $P_1 = 80$ and $P_2 = 40$, a little arithmetic will reveal that the class of indicated poor accounts for 56 per cent of all households. This is the telling statistic which shows that the use of this indicator with its particular threshold will swell the (indicated) poor by 33 per cent (from actual 42 to 56 per cent) in the process of capturing 80 per cent of the actually poor. The 40 per cent leakage thus comes on the top of an escalated cost of the programme by 33 per cent. That is the full story. In Akola and Sabarkantha, the use of this threshold nets all actually poor households, but at nearly

twice the cost and with nearly half the bloated cost spent on non-target households! To avoid escalation of cost, the threshold can be so fixed that the percentage of indicated poor equals the poverty percentage; but it would not prevent leakage. Unless the indicator is very highly positively correlated with the criterion that defines poverty, one ends up either with a low coverage of the actually poor and leakage but no cost escalation, or with profuse leakage on the top of an inflated cost in an attempt to 'net' as large a proportion of the actually poor as possible. SH see this very well but prefer the more expensive second alternative. It is stretching the meaning of the words too far to call the result either 'accurate' or an 'identification'.

How large should the correlation coefficient be for an indicator to perform well on all the counts? Table 1, prepared on the assumption of a bivariate normal distribution of the criterion and the indicator, attempts to answer the question.¹

Even with a correlation coefficient as large as 0.95, leakage and undercoverage (of the actually poor) or escalation of cost are likely to be substantial. In practice, it is difficult to formulate indicators with this measure of correlation. Two of SH's indicators, on owned land and education, are explanatory variables in their regression exercise which shows that their correlation coefficients with income will be much smaller. (See reference to this point in the next section.) This will be probably so for the third indicator also. The failure of SH's three indicators to meet the problem of accurate identification of the poor should not therefore be a surprise; it was, in fact, foreseeable.

DETERMINANTS OF POVERTY

SH's work directed towards achievement of these two ambitious goals may be described in their words: "In order to better identify the causes of poverty, an econometric model was developed to explain the variation in per capita income. The model was subsequently used to predict the effect of different policy interventions on the incidence of poverty". They hypothesise the per capita income to be a function of a household's resource endowments (land, its quality, male and female labour, bullocks and irrigation); the age and education of the household head; annual rainfall and wage rate. Since they have five-nine years' data for each household, they include a trend variable "to capture changes in technology". With dummy variables introduced for caste and village, the explanatory variables number 14. SH fit a linear regression (linear in parameters) of per capita income on these varia-

bles for every district and use it to simulate the effect of several policy interventions. "The model is used to provide an income prediction for each sample household in 1981, 1982 and 1983 given the changes wrought by each policy intervention. These predicted per capita incomes are averaged for the period 1981-83. The incidence of poverty in each region is calculated using our chosen threshold of Rs 950 per capita per year. The percentage reduction in poverty incidence by different policy interventions is given in their Table 7, starting with that for no such intervention. The figures are very impressive; half of them exceed 40 per cent and a fourth of them exceed 70 per cent leading one to believe that policy interventions have indeed been discovered that would give a decisive blow to the scourge of poverty.

It is necessary at this stage to introduce statistical notation and formulae. Let y denote per capita income and x_i ($i = 1, 2, \dots, k$), the k explanatory variables. Further, let M and S^2 stand for the mean and variance of the variable indicated by their subscripts. SH's regression equation is not fully linear in x_i s as, for age and rainfall, the terms (age)² and (rainfall)² also appear in it. But it is possible to treat these two as additional variables and the regression equation as linear in variables also, given by

$$Y = M_y + \sum b_i(x_i - M_{x_i}) \quad \dots(1)$$

or

$$Y = (M_y - \sum b_i M_{x_i}) + \sum b_i x_i \quad \dots(2)$$

The b_i s are the partial regression coefficients, and the first term on the right of (2) is the intercept. SH give the values of M_y and M_{x_i} in their Table 5 and of the intercept and b_i s in Table 6. From the values of the adjusted R^2 in the latter, it is possible to work out those of R^2 the coefficient of determination. For the purpose of our analysis R also stands for the multiple correlation coefficient. Its values are given in Table 2. The fact that the simple correlation coefficient with y or any one of the x_i s cannot exceed R has been the basis of the argument in the preceding section.

For examining the logic of SH's exercise, it is not necessary to deal with k explanatory variables since, as we shall see, it is tied up with R . We define a single explanatory variable $x = \sum b_i x_i$ which will have the same simple correlation coefficient R with y . The regression equation then becomes

$$Y = M_y + b(x - M_x) \quad \dots(3)$$

where $b = RS_y/S_x$. It may be even enough to consider only the standardised values of y and x , namely, $v = (y - M_y)/S_y$ and $u = (x - M_x)/S_x$ leading to the regression equation

$$V = Ru \quad \dots(4)$$

Let $F(v)$ be the distribution function of v . Suppose v_0 is the poverty line and v_0 its standardised value. Then PI, the poverty incidence is given by

$$PI = F(v_0) \quad \dots(5)$$

or for a given PI,

$$v_0 = F^{-1}(PI) \quad \dots(6)$$

We shall use the variable v and u throughout the discussion except when reverting to y and x or the x_i s becomes necessary. This simplified analytical structure facilitates the understanding of SH's exercise which may be otherwise clouded by the very largeness of the number of variables. Further, we cannot strictly examine SH's exercise without their data. But, since our purpose is to compare the results of SH's method with the actual ones, we do so on some clearly stated simplifying assumptions about the statistical behaviour of the data and about the basic ingredients of their policy interventions.

INITIAL INCIDENCE OF POVERTY

From the description of their method it is clear that SH calculate PI in the following manner. If N is the number of households, they work out Y_j , the value of Y for the j^{th} household ($j = 1, 2, \dots, N$) by substituting the values x_{ij} s of x_i s for that household in the regression equation (2). Their estimate of PI, which we shall call SH.PI, is then the proportion of households which have Y_j less than or equal to Rs 950. This gives their 'model predicted' PI without any policy intervention. Such an intervention changes the value of one or more of the x_i s for some or all households. The new set of Y_j values is calculated from the regression equation and the estimate SH.PI' of the new poverty incidence is similarly calculated. The effectiveness of the interven-

tion is judged by the reduction in SH.PI that it achieves. This, in essence, is SH's exercise.

This method overlooks the simple point that Y of the regression equation (1) or (2) stands for the expected (or mean) value of y for a given set of values of x_i s. The y -values of households with the same set of x_i -values will be distributed about Y with a variance equal to $S_y^2(1 - R^2)$. If the objective of the exercise is to predict the average or aggregate of y -values of such households, the Y -values alone can be used. But if it is to predict the proportion of y -values in a given range, it is also necessary to take into account—which SH do not seem to have done—the variance $S_y^2(1 - R^2)$. Estimation of PI is of latter type which is flawed when SH ignore the variance and use only the Y s. Their method is not therefore correct. It has two consequences.

The first is that it underestimates PI. Though the mean of Y is the same M_y , its variance $R^2 S_y^2$ is less than that of y (we ignore the trivial case $R = 1$). As a result, the Y -values will lie closer to the mean than the y -values. If the poverty line is below the average, this will obviously result in an underestimate of PI. Assuming that Y has the same distribution function as y but with different parameters, and using (5), we get SH.PI = $F(v_0/R)$ $\dots(7)$

Since v_0 is negative in this case, and R positive and less than unity, it is easy to see that SH.PI will be less than PI. The smaller the value of R , the larger will be the difference. For a very small value of R , SH.PI will be so small that it would suggest complete eradication of poverty without any policy intervention!

TABLE 1: RELATIONSHIP OF LEAKAGE AND ESCALATION OF COST WITH CORRELATION COEFFICIENT

Threshold so fixed as to "Net"	R	Poverty 30 Per Cent		Poverty 40 Per Cent	
		Escalation Per Cent	Leakage Per Cent	Escalation Per Cent	Leakage Per Cent
90 per cent of poor households	0.6	120	59	75	49
	0.85	50	40	31	31
	0.95	13	22	8	16
	0.995	7	4	7	3
The same per cent of all households as the poverty percentage	0.6	0	42	0	36
	0.85	0	26	0	21
	0.95	0	15	0	12
	0.995	0	5	0	4

Based on the assumption of a bivariate normal distribution.

TABLE 2: DISTRICT-WISE POVERTY INCIDENCE

Description	Mahbub-nagar	Sholapur	Akola	Sabar-kantha	Raisen
1 PI per cent	57	42	34	48	72
2 SH.PI per cent	54	29	17	38	64
3 Per cent underestimation in 2	5	31	50	20	11
4 R	0.711	0.58	0.73	0.86	0.65
5 SH.PI per cent log-normal district	51	28	24	44	68
6 SH.PI per cent normal district	60	36	29	48	81

Note: PI: Actual; SH.PI: as worked out by SH, and SH.PI for assumed income distributions.

'That this analytically derived result actually takes place can be seen from the first three lines of Table 2 which reproduce the results from SH's Table 7 for the five districts and also show the extent of under estimation. The table also shows the values of R.

The table clearly shows that SH's method uniformly underestimates PI and does so by a very large margin in three districts where the mere employment of their method reduces poverty by between 20 and 50 per cent! This should have alerted them to the defect in their method. Even though they say: "We also report actual incidence of poverty to check on the model's performance", they do not report what they did in the face of such large differences. In fact, the fault lies not with the model but with how it is used—with their choice of wrong statistic. Even in Raisen where poverty line is above the average income, SH.PI is less than PI (perhaps due to large inter-village difference in PI). The table shows in the last two lines the estimates of poverty incidence by SH's method based on two different assumptions about the distribution of y and Y : the log-normal² and the normal distributions. They provide further analytical reason why SH.PI would expectedly underestimate PI.

Having thus revealed the defect in SH's methods and its reason, this examination can very well end here. But one more point needs to be laid to rest. With the same method, SH work out SH.PI', their estimate of poverty incidence after policy intervention, and the percentage reduction in poverty, by comparing SH.PI' not with PI but with SH.PI. The idea seems to be that since both are calculated by the same defective method, their common defect will not influence their comparison. We therefore carry the examination through situations of policy interventions to investigate whether a comparison of two defectives becomes free of the common defect.

Before analysing the post-policy situation, it is necessary to be clear about the initial one. Regression equation (4) means that for a given u -value (explanatory variable) the individual v -values (incomes) are distributed around their average: V , with a variance equal to $(1-R^2)$. A certain proportion of such households (with the same u -value) will be poor; let $PI(u)$ denote it. As a corollary, the poor households are distributed over the entire range of u -values, and the distribution will depend upon the value of R . If $R=0$, $PI(u)=PI$ for all u -values and the poor households will be distributed uniformly over the u -range; if $R=1$, they will be confined to the PI per cent lowest u -values. The actual situation will lie in between the two extremes, with $PI(u)$ diminishing with increasing u -value.

But SH's method distorts this reality completely; that is its *second*, the more serious, consequence. The method dictates that a household is poor

if $V \leq v_0 \equiv u/v_0/R = u_0$... (8)
that is, any household with u -value less than

or equal to u_0 is treated as a poor household. Thus, irrespective of the value of R , all SH.PI per cent lowest u -value households are considered as poor. SH, in effect, convert the statistical relationship (4) into a mathematical one of (8).

To illustrate the situation, let v and u have a bivariate normal distribution. The F of (5) then becomes the standard normal distribution function. The poverty incidence among households with a value U of u will be given by

$$PI(U) = F(V_0 - RU)/(1-R)^{1/2} \dots (9)$$

With this result and by numerical integration³ Table 3A has been worked out for two values of PI (i.e., of corresponding v_0 given by (6)) and two values of R . The latter roughly cover the observed range of R -values in the five districts. Since we use the normal distribution, both values of PI have been taken less than 50 per cent.

The table translates all the implications of the regression equation (4) and gives the distribution of poor households over the

deciles based on u -values. It also gives the cumulatives from the top decile and the highest u -value for each decile which is also the lowest for the next higher decile. The latter for the first decile is *minus* infinity. The figures are percentages of all households. The table indirectly shows the poverty incidence in each decile. If $P(r)$ is its value for the r th decile, $r=1, 2, \dots, 10$, then it is one-tenth of the value shown against it in the main four columns for different PIs and R s. For example, for $PI=30$ per cent and $R=0.6$, $P(1)=0.73$ (or 73 per cent); $P(2)=0.55$ (or 55 per cent), etc. The table thus shows the 10 ranges of u -values each containing 10 per cent of households *initially* with different—and diminishing—poverty incidences. Note that the $P(r)$ s are determined by the regression equation and do not change so long as the corresponding u -ranges remain unaltered.

SH's method gives a different representation of this initial situation which is given in Table 3B. By (7), SH.PI is lower at 19.11

TABLE 3A: ACTUAL DISTRIBUTION OF POOR HOUSEHOLDS BY DECILES OF EXPLANATORY VARIABLE: U

(Per cent of all households)

Decile Number	Highest Value of u in the Decile	PI = 30 Per Cent		PI = 40 Per Cent	
		$R = 0.6$	$R = 0.85$	$R = 0.6$	$R = 0.85$
1	-1.2816	7.3 (30.0)	9.5 (30.0)	8.3 (40.0)	9.8 (40.0)
2	-0.8416	5.5 (22.7)	7.5 (20.5)	6.8 (31.7)	8.8 (30.2)
3	-0.5244	4.4 (17.2)	5.3 (13.0)	5.7 (24.9)	7.3 (21.4)
4	-0.2533	3.6 (12.8)	3.6 (7.7)	4.9 (19.2)	5.6 (14.1)
5	0.0000	2.9 (9.2)	2.1 (4.1)	4.2 (14.3)	3.9 (8.5)
6	0.2533	2.3 (6.3)	1.2 (2.0)	3.4 (10.1)	2.5 (4.6)
7	0.5244	1.7 (4.0)	0.6 (0.8)	2.7 (6.7)	1.3 (2.1)
8	0.8416	1.2 (2.3)	0.2 (0.2)	2.0 (4.0)	0.6 (0.8)
9	1.2816	0.8 (1.1)	0.0 (0.0)	1.4 (2.0)	0.2 (0.2)
10	Infinity	0.3 (0.3)	0.0 (0.0)	0.6 (0.6)	0.0 (0.0)

Figures in parentheses show cumulatives from top to bottom decile.

Table based on standardised bivariate normal distribution.

TABLE 3B: SH'S MODEL DETERMINED DISTRIBUTION OF POOR HOUSEHOLDS BY DECILES OF EXPLANATORY VARIABLE: U

(Per cent of all households)

Decile Number	Highest Value of u in the Decile	PI = 30 Per Cent		PI = 40 Per Cent	
		$R = 0.6$	$R = 0.85$	$R = 0.6$	$R = 0.85$
1	-1.2816	10.00	10.00	10.00	10.00
2	-0.8416	9.11	10.00	10.00	10.00
3	-0.5244	0.00	6.86	10.00	10.00
4	-0.2533	0.00	0.00	3.65	8.29
5	0.0000	0.00	0.00	0.00	0.00
6 to 10	Infinity	0.00	0.00	0.00	0.00
Total		19.11	26.86	33.65	38.29

Table based on standardised bivariate normal distribution.

and 26.86 per cent, when $PI = 30$ per cent, for $R = 0.6$ and $R = 0.85$ respectively, and 33.65 and 38.29 per cent when $PI = 40$ per cent, for these two values of R . The figures in the table are obtained by using the result $u_0 = F^{-1}(SH.PI)$. It will be seen that SH's method places the poor households always in the lower-most deciles starting with the first. (The values of $P(r)$ are similarly calculated in this case also.) The distortion of the real initial situation reflected in Table 3B has a damaging effect on SH's estimates of policy-induced reduction in poverty.

POVERTY INCIDENCE AFTER POLICY INTERVENTION

A policy intervention increases the values of one or more x 's, whose regression coefficients are positive, for those households which have low values of such x 's. It may or may not change the values for other households. By its operation through the regression equation—which SH assume to be a cause-and-effect relationship—the change will cause a change in y -values, their distribution and in incidence of poverty. There are basically two types of interventions: redistribution of x -values keeping their total fixed (land, for example); and augmentation of these values for low x -value households (resources, education, for example). In terms of the standardised variables the distributions of v and u may not remain normal nor their joint distribution bivariate normal. But the conditional distribution of v for any given value of u will continue to be normal because of the fixed regression equation. In terms of Tables 3A and 3B, not all of the ten u -ranges will continue to have 10 per cent households as before, but the rangewise poverty incidences $P(r)$ s will remain the same. To distinguish the same statistics after intervention, we shall use vertical dashes at their end, such as in PI' , $SH.PI'$, Y' or V' . Table 4 gives the results for one typical policy of redistribution and one of augmentation, with two variations of the latter. Brief explanations of the procedures of calculation in the two cases are given below.

Redistribution

The scheme of redistribution considered changes the x -value of a household to x' by the equation

$$x' = M_x + k(x - M_x) \quad \dots(10)$$

where k lies between 0 and 1. The degree of redistribution increases with decreasing k . The mean of x 's will be the same M_x as before, but the variance will be reduced to $k^2 S_x^2$. After substituting the value x' in the regression equation (3) and a little statistical derivation, one obtains the new poverty incidence PI' by the expression

$$PI' = V(v_0 / (1 - (1 - k^2)R^2)^{1/2}) \quad \dots(11)$$

where v_0 given by (6) equals -0.5244 for $PI = 30$ per cent and -0.2533 for $PI = 40$ per cent. By SH's method, the new poverty incidence is given by

$$SH.PI' = F(v_0 / Rk) \quad \dots(12)$$

Clearly, SH's method underestimates PI' ; Table 4 shows its extent. At the extreme, when $k = 0$, that is when all x -values are made equal, PI' reaches its lowest value of $F(v_0 / (1 - R^2)^{1/2})$ which is non-zero (except in the trivial case $R = 1$); but $SH.PI'$ will be zero giving a false impression of eradication of poverty by this redistributive measure.

Augmentation

Consider the first variation of this policy and the case $PI = 30$ per cent. The policy raises the u -value of the households of the first three deciles to their maximum, that is -0.5244 . The new incidence of poverty for them will be given by equation (9) with this value of U and the percentage number of poor households among them will be equal to

$$30F((v_0 + 0.5244R)/(1 - R^2)^{1/2})$$

For $R = 0.6$, this is 11.90 per cent. There is no change in the number of households in the fourth and higher deciles which will continue to account for 12.8 of the original 30 per cent poor households (see Table 3A); the new poverty incidence PI' will thus be $11.90 + 12.80 = 24.70$ per cent. When $PI = 40$ per cent, the policy makes a similar change in the u -values of households of the first four deciles.

It is easy to see that with this policy, there will be no households left in the first three

ranges of u -values when $PI = 30$ per cent, and in the first four when $PI = 40$ per cent. The resulting poverty incidence $SH.PI'$ by SH's method will be zero irrespective of the value of R .

SH's policy variables are at the household level, but the corresponding explanatory variables are on a per capita basis. Even when the former's value is made the same for a group of households, the latter will vary. The second variation takes this into account. For $PI = 30$ per cent, it distributes lowest 30 per cent u -value households equally over the third and fourth u -ranges. As a result, there will be no household in the first two ranges and 15 per cent in the third range and 25 per cent in the fourth. For $R = 0.6$, using Table 3A, one gets the new poverty incidence

$$PI' = 15 \times 0.44 + 25 \times 0.36 + 9.2 = 24.8 \text{ per cent and } SH.PI' \text{ equal to zero.}$$

Similarly, when $PI = 40$ per cent, the lowest 40 per cent u -value households are equally distributed over the fourth and the fifth ranges. For $R = 0.85$, this gives

$$PI' = 20 \times 0.56 + 30 \times 0.39 + 4.6 = 27.5 \text{ per cent and } SH.PI' = 20 \times 0.829 + 30 \times 0.0 + 0.0 = 16.58 \text{ per cent.}$$

Table 4 shows that $SH.PI'$ underestimates poverty incidence after policy intervention and exaggerates policy-induced reduction in poverty by a large margin in all cases.⁴ The margin decreases with increasing R and

TABLE 4: POVERTY INCIDENCE AND REDUCTION IN IT AFTER POLICY INTERVENTION

Policy Intervention	Actual or SH's Result (in Per Cent)	PI = R = 0	Cent		
			= 0.85	PI = 40 Per Cent R = 0.6	R = 0.85
No intervention or initial value	PI	30	30	40	40
	SH.PI	19	27	34	38
Redistribution					
Mild $k = 0.75$	PI'	28	26	39	38
	(Red)	(5)	(12)	(2)	(5)
	SH.PI'	12	21	29	35
	(Red)	(36)	(24)	(15)	(10)
Medium $k = 0.5$	PI'	27	22	38	35
	(Red)	(10)	(27)	(4)	(11)
	SH.PI'	4	11	20	28
	(Red)	(79)	(60)	(41)	(28)
Considerable $k = 0.25$	PI'	26	18	38	33
	(Red)	(13)	(41)	(6)	(18)
	SH.PI'	0	1	5	12
	(Red)	(100)	(97)	(86)	(70)
Egalitarian $k = 0$	PI'	26	16	38	32
	(Red)	(15)	(47)	(6)	(21)
	SH.PI'	0	0	0	0
	(Red)	(100)	(100)	(100)	(100)
Augmentation					
1 Lowest PI per cent u -values raised to their maximum	PI'	25	21	32	27
	(Red)	(18)	(30)	(19)	(32)
	SH.PI'	0	0	0	0
	(Red)	(100)	(100)	(100)	(100)
2 Lowest PI per cent u -value households distributed over 3-4/4-5 deciles	PI'	25	21	32	28
	(Red)	(17)	(30)	(19)	(31)
	SH.PI'	0	10	7	17
	(Red)	(100)	(62)	(78)	(57)

Figures in parentheses give per cent reduction in PI and $SH.PI$ respectively. All figures rounded after calculation. Table based on standardised bivariate normal distribution.

P1. Although these results apply to the specific interventions we considered, Table 3B points out that with 'stronger' interventions, which increase the low u -values much more, SH's method will give worse results. The table also demonstrates that a comparison of two defectives in this case is not free from their common defect.

An extension of these results to a multi-variate situation should recognise one important point. In that situation $x = \sum b_i x_i$, and increasing low x_i -values may not always mean increasing low x -values as this will depend upon the correlation coefficient between x_i and x . If this is small, an increase in the low x_i -values will increase most x (or u)-values and cause only a marginal net shift of households from the lower to the higher ranges of u -value. In such a case, SH's method may distort reality in the opposite direction: overestimate new poverty incidence and understate reduction in poverty, but will vitiate conclusions nonetheless. It is quite likely that this happened for interventions which, by SH's method, showed marginal reduction in poverty and led them to conclude that the interventions were least effective.

SH's method of calculation thus needs to be corrected. In the process of our examination we have indicated the correct method, the one adopted in the example of augmentation based on Table 3A. A similar table should be constructed using the variable $x = \sum b_i x_i$ in place of u after the b_i s of regression equation (1) or (2) are estimated. (We may use Y instead of u .) For greater accuracy, we may use percentiles smaller than deciles. The rest of the framework of the method remains the same, the important point being that the table should show the actual poverty incidence for each percentile. A large enough sample will be required to estimate with necessary precision the statistics in Table 3A. There is no place in the method for 'model determined' initial poverty incidence SH.P1. An alternative method would be to establish empirically the multi-variate distribution and work out an analytical solution with the same conceptual framework.

OTHER ISSUES

Finally, three statistically transformed material points of SH's paper need a close scrutiny. The first is about the content of a policy intervention, the new value it assigns to an explanatory (policy) variable for some or all households. In a few cases, the new value is far above the initial average. In these cases, the predictive ability of the regression equation is severely impaired making even correct estimates of reduction in poverty of doubtful statistical reliability. It is also unrealistic to expect that such policies, dreamlike if not revolutionary, could indeed be implemented. At best, they hold a promise of golden days in some distant future. Doubling the wage rate (P6), doubling household's wage earnings (P7) and raising the educational level of household head to

eight years of schooling (P3) fall in this class. Given that the average number of years of schooling is 2.2 in the region, P3 ceases to be a poverty alleviation policy and becomes an ambitious education policy in itself. The new value should have some realistic relationship either with the initial overall average or with that for the non-poor households.

The second point is about the lack of comparability of contents of SH's major policy interventions. The intervention P1 of redistribution of land seeks to make the minimum per capita size of owned land equal to 0.2ha, P2 the minimum number of bullocks two per household or 0.33 per capita, and P3 to provide minimum eight years of schooling to household heads. The present average values of the three policy variables are: 0.62 ha, 0.18 bullocks, both per capita and 2.2 years. P1 will make a relatively small dent in the existing land distribution. On the other hand, P2 would make the bullock holdings of the beneficiary households 85 per cent larger than the present average. P3 is characteristically so generous as to make the beneficiaries four times as educated as the present average household head. To compare their effectiveness in terms of poverty reduction—3 per cent, 34 per cent and 46 per cent respectively—is an unfair argument, and to conclude that "Redistribution of land alone (P1) is the least effective intervention" and providing education (P3) and bullocks (P2) were most effective in reducing poverty... an arbitrary judgment.

Lastly, about the well-known danger that lurks behind the interpretation of a regression equation as a cause-and-effect relationship when it is based on essentially cross-sectional data. It arises even when explanatory variables such as land and irrigation have real relationship with income. It becomes a disaster in the case of other variables when association, causation and effects are confused with one another. Bullocks, SH observe, are highly 'significant'—just as land, labour and irrigation—in determining per capita income! But it is unrealistic to let them roam as causal variables unrelated to land. SH's Table 3 shows marginal differences in the bullock-land ratio for the poor and non-poor households for most of the districts. It is pertinent to assess first the effect of omitting bullocks on the partial regression coefficient of land. Disregarding that the apparent association between them and income could be solely due to their separate association with land, unmindful of the economic consequences of doubling the region's total number of bullocks in the process,⁵ SH reach the finding that by providing a pair of bullocks to households which have none, poverty will be reduced by 40 to 50 per cent in three of the five districts and by 34 per cent in the region. Still more serious is the case of policy P3 about education. Even though SH state that "...the education of head of the family is positively associated with income in all regions" they treat it as a causal variable and conclude: "If all the household heads... had a minimum of eight

years' schooling, the incidence of poverty would be greatly reduced." (The percentage reduction varies between 70 and 82 in three districts.) SH's package policy of providing bullocks and education with some land thrown in, that—they assure—"reduces poverty by 74 per cent at the aggregate level, but in some villages... can eliminate poverty completely", is disturbingly close to Marie Antoinette's solution to hunger. SH's inversion of cause and effect, with transfiguration of association into both and studded with miniaturised images of vanishing poverty, creates a surreal computer graphic that mocks poverty.

Note:

- 1 The table requires calculation of incomplete integrals of the bivariate standard normal distribution and use of Biometrika Tables (1976) or Pearson's Tables, Part 2 (1931) for the purpose. The figures have been however worked out using equiprobable values of a standard normal variate and the incomplete integral of its distribution function on a programmable calculator. The results are accurate up to three places of decimals or one place of decimal of a percentage.
- 2 The parameters of the two-parameter log-normal distribution have been calculated using the poverty line of Rs 950, and the observed P1 and the average income in each district (SH's Table 2).
- 3 The same method as in (1) is used for this table's construction.
- 4 Some statistically fine points we ignored in the examination of SH's method need to be acknowledged. First, we dealt with the population measures and not with their sample based estimates. But the conclusions apply with equal force to the latter. Secondly, we have not made the conceptual distinction between the square of the correlation coefficient (simple or multiple) and the coefficient of determination. The main point however remains unaffected, namely, that Y and y are statistically different with different variances. The conceptual difference between the two coefficients is also not materially important because we have made the regression equation linear by our device. Thirdly, we have treated the explanatory variables as statistical variables, since we deal with the population and not sample. SH perhaps treat them as constants. But, since the purpose of the exercise is to predict outcomes for the population, one needs to know the multi-variate distribution of the explanatory variables. It is a moot point whether data based on 40 households from each of the two purposively selected villages are indeed adequate to estimate this distribution at the district level.
- 5 From SH's Tables 2, 3 and 4, the region's average of household size is 6.01, and of bullocks 0.18 per capita, giving an average of 1.08 bullocks per household. That with implementation of P2 this average will double itself (at least) should be obvious. A statistically refined estimate based on Poisson distribution shows the increase to be 97 per cent (Mahbubnagar: 124 per cent, Sholapur: 122 per cent and Sabarkantha: 141 per cent).



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ECONOMIC AND POLITICAL

WEEKLY

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September 4, 1993

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OF TWENTIETH CENTURY**

▲ **COMMUNAL CONSCIOUSNESS
AND COMMUNAL VIOLENCE:
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■ **POLITICS OF BIOSAFETY:
JAPANESE VACCINE TRIALS IN
INDIA**

■ **DUNKEL DRAFT ON DRUG PATENTS**

● **RHETORIC AGAINST AGE OF
CONSENT: RESISTING COLONIAL
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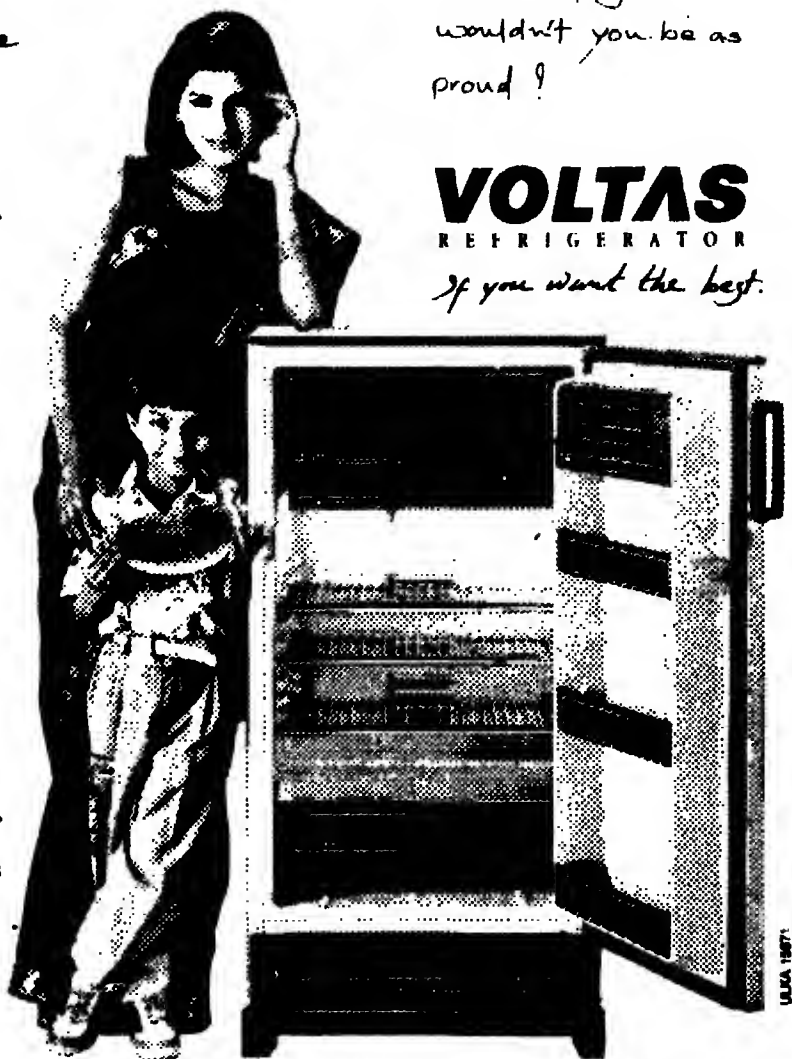
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WEEKLY

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Hindu Conjugalinity and Militant Nationalism

In the last decades of the 19th century a fairly distinct revivalist-nationalist political formation had emerged in Bengal which used an explicitly nationalist rhetoric against any form of colonial intervention within the Hindu domestic sphere. This group chose to tie its nationalism to issues of conjugalinity which it defined as a system of non-consensual, indissoluble, infant marriage. The Age of Consent issue forced a decisive break in this formation's discourse, making it imperative for it to shift to an entirely different terrain of arguments and images. 1869

Debating Development

In a few years from now we will have reached the end of the twentieth century. A number of post-colonial societies, India included, will also be soon completing their first half century of planned economic development as independent nation states. It is, therefore, time to take stock of what we have learnt from the development process. 1879

Oasis Transformed

Events in Surat in last December-January reflected a disturbing approximation between the manifestation of communal violence and the enunciations of the relatively less rabid ideologues of Hinduism. They broke a crucial psychological barrier that had hitherto divided the physical perpetrators of violence from those who verbally justified or even abetted it. 1883

Back to 1911

The government of India had enacted the Patents Act of 1970 after overcoming tremendous resistance. The drastic changes in patents laws, which India's acceptance of the Dunkel draft will now entail, will deprive the country of the gains of the 1970 Act. The amendments proposed by Dunkel will in fact take the country back to a situation worse than that under the Patents Act framed during the colonial period in 1911. 1861

Against Privatisation

Pressures are mounting for the privatisation of coffee trade. However, an analysis of the performance of government intervention in the trade in coffee through the Coffee Board shows that such intervention has led to stabilisation of producer prices and incomes of coffee-growers, especially the small growers, and encouraged investment in raising production through area expansion and improvement of yield. 1853

Paper Law

The West Bengal State Health Service Act, 1990, was intended to bring about improvement in teaching in the medical colleges and patient care in the attached hospitals. Though its constitutional validity was recently upheld by the Supreme Court, the act remains a paper law. 1845

Who Gains?

Does the impressive package of financial assistance offered to the small-scale sector really benefit the small units? Or do the benefits largely accrue to medium and large industries which make purchases from the small-scale sector? 1846

In True Colours

The government's response to the attack on the Sahmat exhibition in Ayodhya last month and its subsequent actions are an incisive comment on its proclaimed move to separate religion from politics. 1849

No Checks?

Recent reports of vaccine trials by Japanese in India raise many important questions on the functioning of the regulatory mechanisms in India. 1850

Utpal Dutt

Utpal Dutt will be remembered as an outstanding architect of the Bengali political theatre, one who responded to the changes of his times vigorously and excitingly. 1848

LETTERS TO EDITOR

Camille Bulke's *Ramkatha*

AROUND 1960 I had read Camille Bulke's *Ramkatha* a definitive work in mellifluous Hindi by a great scholar and lexicographer of Hindi among other Indian languages. Camille Bulke, a Jesuit priest of Austrian origin who had opted for Indian citizenship and who died only a few years back had very diligently unearthed various versions of the Ramayana prevalent in ancient India and its neighbourhood.

Starting from the aboriginal versions Bulke had traced the Ramayana's Buddhist, Jaina and brahminical versions. He also wrote of a Dravidian Ramayana in which Ravana appears as hero and Ram as a villain to borrow from the filmic stereotypes. Bulke's work though not bulky had great weight by virtue of its authenticity, dispassionate scholarship and objectivity. It was a compendium of a legend, originating in remote antiquity.

At the time when I had read Bulke's *Ramkatha* my conclusion was that the Ramayana legend had grown out of the history of the truly titanic struggle between the invading Aryans and the original inhabitants of the land which is now known as India, that is Bharat. I found it extremely significant that in almost all the versions of the Ramayana, Sita was depicted as born of earth and returning to earth. Sita thus, symbolised the land for which and for whose possession the Aryans and the original inhabitants of the land had come into conflict.

IQBAL AKHTAR

Delhi

Peasants against Dunkel Draft

A two-day convention against the proposals of the Dunkel draft, held in Jalandhar, Punjab, on August 17 and 18, has led to the formation of a committee to campaign against the Dunkel draft. The convention was organised by a preparatory committee consisting of nine peasant and agricultural workers' organisations with Hardev Singh Sandhu, president of the Kirti Kisan Union, Punjab, as convener. The other members of the preparatory committee were the Andhra Pradesh Rytu Coolie Sangham, Sangrami Krishak Samithi, Karshaka Toolal Sangham, Bhoomiheen Kisan Sangharsh Samiti, Kashakari Sanghatana, Shetkari Khetmajdoor Sanghatana, Adivasi Bhoomiheen, Kisan Haq Sarakshan Samiti and the Krishak Khetmajdoor Samiti.

The convention resolved to form a campaign committee against the proposals and it was decided to call it the anti-

Dunkel, anti-imperialist peasants and patriotic sangharsh samiti. It was further decided to raise a force of volunteers to conduct the campaign. The volunteers would wear red caps and badges and be armed with sticks. Fifteen organisations from all over the country have associated themselves with the samiti and have agreed to work on the programme of observing an anti-imperialist fortnight from September 10 to September 25 and to demonstrate before collectorates all over the country on the last day of the fortnight.

The convention called for the formation of a front of peasant and agricultural workers' unions against the Dunkel draft. The demands being put forward are: (1) Reject the Dunkel draft entirely; (2) Reject IMF, World Bank conditionalities which cover Dunkel proposals; (3) Withdraw from membership of IMF, World Bank and GATT; (4) Stop payment of debts and interest on IMF, World Bank and loans from other imperialist monetary agencies; (5) Declare as the property of the Indian people, the assets of industries, agricultural farms, research agencies, commercial organisations and service organisations of the imperialists; (6) Scrap all unequal treaties with imperialists; (7) Scrap the new economic, industrial and trade policies; (8) Scrap the new agricultural policy aimed at globalising Indian agriculture; (9) Land for the tiller; (10) Write off debts of farmers and the rural poor except landlords and exploiters; (11) Recognise the right of adivasis over the forests and land and their right to have their own way of life and administration; (12) Scrap leases of lands to multinationals and business houses for agriculture, horticulture and salt manufacture; (13) Drive out multinational seed companies and research organisations; (14) Declare the right of the people over plants and animal life; (15) The people should have total

rights over land, seeds and cropping; (16) Stop all steps at denying the right to livelihood through lay-offs, lock-outs, retrenchments, exit policy; (17) Reopen closed industries. Stop attempts to wind up the public distribution system; (18) Guarantee the right to employment; (19) Build minor irrigation projects, check dams and anicuts in place of major projects and place them under the control and administration of the people; (20) Stop commercial exploitation of forests, land and water leading to displacement of adivasis and to environmental degradation; (21) Withdraw armed forces from areas of peasant movements and scrap draconian laws; and (22) Release all political prisoners unconditionally.

The convention elected Hardev Singh Sandhu as convener of the committee.

HARDEV SINGH SANDHU

Jalandhar City

Bengalis in Bihar

THIS refers to the article authored Sajal Nag in your issue of July 17-24. The article deals with the 'political economy of sub-nationalism in India'. The author, while discussing various nationality formation processes, refers to Bihar and comments, "As far as Bihar is concerned Bengalis were preponderant in the job sector and exercised socio-cultural domination over the Biharis which became the bone of contention between the two" (p 1523). He refers to an article by Shaibal Gupta and V C P Chaudhary's book, *The Creation of Modern Bihar*. It is strange that he leaves out another book, *Socio-Cultural Study of a Minority Linguistic Group: Bengalees in Bihar, 1858-1912* in which one full chapter has been devoted to the separation movement with much analytical details.

SUDESHNA BASAK

New Delhi

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Not By Interest Rates

ON the face of it, the Reserve Bank of India's mid-season measures of further reducing the lending and deposit rates of banks is to be welcomed, though not for the reason the monetary authorities have sought to advance, namely, a marked decline in the inflation rate over the past several months. Nor is there much merit in the view sought to be purveyed by the RBI that broader macro-economic goals can be achieved by developing interest rates as a flexible instrument of monetary policy to be used in response to changes in the overall economic situation. By its very nature, in the Indian situation with vast market imperfections, the interest rate is a relatively blunt instrument. It is likely to be effective, if at all, only at the extremes. In that sense the interest rate policies pursued by the RBI, particularly in the period since September 1990, have created major distortions in the economy. First, a meaningful classification based on functional categories and sectors was dispensed with and a process of eliminating cross-subsidisation—an essential requirement in a grossly unequal and disparate economic system—was begun. Second, the interest rate structure was progressively pushed up, with the minimum lending rates of banks being raised from 16 per cent in September 1990 to 20 per cent by October 1991. The rates charged by the term-lending institutions were simultaneously raised to 17-19 per cent and above, which is by any reckoning exorbitant for investment credit. Interest burden on companies has as a result shot up in recent years, despite the fact that the private corporate sector has relied relatively more on the capital market for funds. A recent study of over 1,000 private sector companies brings out that their interest burden rose by 18 per cent in 1990-91, by over 30 per cent in 1991-92 and by 15.5 per cent in 1992-93. Interest cost absorbed about 60 per cent of gross profits in respect of many segments of the corporate sector, compared to around 40 per cent in the early 1980s. There is little doubt that high interest rates had begun to hurt industrial investment in the past few years.

The argument that the stiff interest rate policy has contributed to lowering the inflation rate is not borne out by facts. Stiff interest rates are primarily relevant to the prices of manufactured products; here, by and large due to cost-push pricing, there has been little impact of the increases in interest rates in terms of dampening of the price rise. The rate of increase of manufactured prices, as per the wholesale price index, was 8.4 per cent in 1990-91, 11.3 per cent in 1991-92 and 10.5 per cent in 1992-93. In the current year as well, the rise in prices of manufactured products (2.9 per cent) has been comparable with that of the general index (2.6 per cent). Much the larger part of the decline in the inflation rate has occurred on account of the movement of prices of primary articles.

The adverse effects of the high interest rate policy should be somewhat mitigated by the recent reductions in interest

rates. The minimum interest rate for loans over Rs 2 lakh has been brought down to 15 per cent—a rate probably comparable to that obtaining in the latter half of the 1970s (when interest rate policy comprised fixing the maximum lending rate which ranged between 15 per cent and 18 per cent during the period). Likewise, the maximum deposit rate has been reduced to 10 per cent for term deposits of maturities ranging from 46 days to three years and above, comparable to rates that prevailed during 1987-89.

What is questionable, however, is the RBI's conviction that playing around with some aggregate M_3 numbers or prescribing broad interest rates meet the requirements of an adequate monetary or credit policy. The situation clearly calls for positive encouragement to banks to lend in favour of agriculture, small-scale industries and other small borrowers, whose share in total bank credit has been dwindling in recent years. Similar discrimination is also called for in the interest rates prescribed for different categories of borrowers. The entire credit delivery system today is loaded against small and middle-sized borrowers, whereas large industries and businesses have easy access also to the capital market, including debentures, public deposits, commercial paper and even bridge and other short-term accommodation from the UTI, LIC and other term-lending institutions. Even in a country like South Korea there are obligatory ratios prescribed for lending to small and medium firms. With effect from February 1992, the Bank of Korea raised its obligatory ratio for nation-wide commercial banks' loans to small and medium firms from 35 per cent of the increment in the banks' local currency loans to 45 per cent. Further, the Reserve Bank's credit policy contains no element calculated to provide any stimulus to industries hit by recession. This requires a selective approach to the quantum as much as to the cost of credit.

Similarly, a blanket approach to the question of interest rates on bank deposits deprives monetary policy of the ability to shift financial savings from short-term instruments like short-duration deposits to long-duration deposits, an important consideration in a country with limited scope for long-term savings and hardly any worthwhile system of social security. Therefore, attractive rates of interest on long-duration deposits with freedom for banks to evolve recurring and other special deposit schemes which offer long-term benefits to depositors would be an effective way of helping banks to offer some competition to non-banking financial intermediaries. Simultaneously, it is necessary to discourage the parking of short-term funds with banks at unjustifiably high rates of interest essentially by companies which also borrow from banks. This only imposes an avoidable interest burden on banks for funds which are relatively volatile.

POLITICS

Ayodhya Card

THE prime minister's sudden assertion—after months of silence—that the Babri masjid would be rebuilt (announced during his independence day speech) is not likely to make either the Muslims whoop with joy, or the 'Sangh parivar' quail in fear. The speech—hailed as an 'upbeat address' in sections of the press—had nothing cheerful about it, but was transparent enough to reveal the utter cynical electoral calculations that Rao was entertaining when delivering it. Knowing his equivocal antics, it is not possible to take seriously either his promises or threats.

The same Rao, some time ago, appealed for a moratorium on all discussion of the Ayodhya dispute, presumably hoping that people would forget all about it. What makes him today open up the issue? Does he hope that the Muslim electorate will be taken in by his promise to rebuild the mosque? As if not sure about the effectiveness of that promise, Rao came up with a more substantial sop (in the same speech of his)—the setting up of a national minorities finance and development corporation with a capital of Rs 500 crore. Does he expect to buy off the Muslims with such financial crumbs so that they remain silent while the 'Sangh parivar' continues to have its way?

If the prime minister was really serious about rebuilding the Babri masjid (at least as a token of repentance for his abetment in its destruction), he should have prevented the installation of the Ram Lalla idols at the site of the demolition—which took place immediately after the imposition of presidential rule in Uttar Pradesh. Even today, the 'Sangh parivar' is allowed to run the show in Ayodhya. That the VHP-BJP-RSS axis wields control over the administration is evident from some of the recent developments there. When the Delhi-based cultural organisation Sahmat decided to organise a cultural festival in support of communal harmony at midnight on August 14-15, the district administration initially refused to grant it permission to do so. The same administration has been allowing thousands of Hindu devotees to congregate at the site of the demolition to worship the illegally-installed stone images of Ram Lalla. The prime minister, as usual, remained a silent spectator.

His rival, Arjun Singh, stepped into the picture, provided financial support to the Sahmat programme, and air-dashed to Lucknow on August 14 to offer his blessings—all in a bid to promote his image as the great champion of secularism, as opposed to Rao's dubious motives. But then, may one ask, what role has Arjun Singh played as an important minister in

Rao's cabinet, in the Babri masjid dispute? However much he might bemoan the destruction of the masjid today, he could not—or did not—influence the cabinet which remained a passive observer to the prime minister's dithering and final acquiescence in the demolition of the masjid. Even after the December 6 events, Arjun Singh appears to have chosen the role of an intermittent secularist—hibernating at times, and then springing up later whenever it suited his political interests in his ding-dong battle with Rao. Even in Ayodhya, he with all his ministerial might and patronage could not prevent the 'Sangh parivar' lumpens from destroying the exhibition put up by Sahmat, which happened in front of the personnel of the Provincial Armed Constabulary (PAC), known to be thoroughly infiltrated by the RSS, but still allowed, under presidential rule today, to continue as of old. As a senior minister in Rao's cabinet, what has Arjun Singh done to compel the cabinet to purge the administration of communal elements in the states under presidential rule?

When it comes to the crunch, both Rao and Arjun Singh try to play the Ayodhya card, each in his own way. But both are compelled to walk a tightrope, wavering between placating the Muslim vote-bank on the one hand and keeping the Hindu vote-bank in good humour on the other.

TRIPURA

Fishing in Troubled Waters

THE centre's decision to appoint Ramesh Bhandari as governor of Tripura can presage bad days for the newly-installed CPI(M)-led government in that state. Still licking its wounds after its ignominious defeat there at the last polls, the Congress is bent on making things hot for the new government by creating—or encouraging—a law and order problem, and then whipping up public opinion in favour of central intervention. In these efforts of the Congressmen of Tripura, the new governor, being a seasoned ex-bureaucrat and a loyal Congress politician, is expected to give a more sympathetic hearing to anti-CPI(M) complaints than his predecessor, Raghunath Reddy (who although a Congressman, was known for his leftist leanings), and can also be relied upon to recommend central intervention.

The law and order situation in Tripura had not been particularly satisfactory even during the previous Congress regime. But since the left government's assumption of office there, there had been a sudden rise in the number of violent incidents which are being interpreted in official circles as a sign of the resurgence of tribal militancy. This is reminiscent of the late 1980s,

when during the then CPI(M)-led Left Front regime there, sections of tribal youth demanding an end to exploitation and a better deal formed the militant Tripura National Volunteers (TNV) and, with active Congress support, launched an armed insurgency against the government, which they accused of neglecting tribal development. It was the deteriorating law and order situation caused by this that brought about the collapse of the Left Front government—helped of course by New Delhi's intervention, both before and during the elections—and brought back the Congress to power in Tripura.

But, while the Congress government managed to neutralise the TNV by offering lucrative deals to its allies in the TNV leadership, the vast masses of the tribals continued to suffer both economic exploitation (by the non-tribal traders) and social oppression (there were allegations of gang-rape of tribal women by the police and security forces during Congress rule). This gave rise to a new crop of militant armed groups among the tribals, prominent among which was the All Tripura Tribal Force (ATTF) which was believed to have enjoyed the support of the then opposition party, CPI(M). Members of the TNV, who were left out of the deals worked out between the Congress and its leaders, formed the National Liberation Front of Tripura (NLFT) and are operating as an insurgent group in south Tripura. There is another militant group known as the Tripura Rajya Rakshi Force (TRRF). Most of these groups enjoy either direct or indirect support from established political organisations, which are pursuing their own ends.

The CPI(M) political leadership of Tripura has not yet been able to come up with any plan to cope with this grim reality. Reported differences between chief minister Dasarath Deb Burman and the veteran leader Nripen Chakravarty have further immobilised the party machinery. As a result, there is a tendency to depend solely on the police and bureaucracy, both of which have been thoroughly politicised by the previous Congress ministry. The simplistic interpretation of the violent outbursts of tribal grievances as a law and order problem prompts these bureaucrats to deploy the state's armed forces against the tribals, with the inevitable tragic consequences (as evident from a recent incident in Rajchantai, in which a number of jawans raided a tribal-dominated area, set fire to the houses of tribals and assaulted them). If this trend is allowed to continue by the Tripura Left Front government, without any effective policy for the economic development and protection of the cultural identity of the tribal population, the CPI(M) is clearly asking for trouble, and offering the Congress yet another opportunity to fish in troubled waters.

CONGRESS(I)

Fireworks in West Bengal

THE Congress(I) in West Bengal has not been exactly a model of unity and cohesion for many years, broadly since the party split in the wake of Indira Gandhi's post-Emergency defeat in general elections in 1977. But the bitterness (and violence) that marks the intra-party relations these days is perhaps without a precedent. The state Congress's official leadership headed by Somen Mitra and ably supported by the state INTUC president Subrata Mukherji is now confronted by the state Youth Congress president, Mamata Banerji MP, supported by two former union ministers, P R Das Munsi and Saugata Roy, both of them, incidentally, leading lights in the now dissolved anti-Indira splitaway Congress in the post-Emergency period.

The continuing ding-dong battles, seldom subject to decorum or restraint, reached a new stage when the Mamata faction misbehaved with leaders, even not clearly identifiable with their rivals. Some days ago, two emissaries of the central leadership, Planning Commission deputy chairman and now—reappointed union cabinet minister Pranab Mukherji and one of the AICC general secretaries Ahmed Patel were about to be lynched by Mamata's followers, when the two had gone to see and sympathise with her camp-followers injured in the police firings in Calcutta on July 21. They were rescued by the police, but not before Patel was relieved of his purse by his assailants.

This factional warfare recently surpassed previous limits when two leading functionaries of Howrah district Congress, both lawyers and members of the Somen Mitra camp, were murdered at a public place on the night of August 20. Next day while the locality observed a successful bandh, including ceasefire by the lawyers in the city courts, the police arrested seven Congress members, belonging to the Mamata faction, including the president of the district Youth Congress, in connection with this outrage.

Naturally, public recriminations and factional mobilisations continue unabated even though the party has on its hands three assembly by-elections, including the one for the prestigious Chowringhee constituency of Calcutta, which fell vacant due to the resignation of S S Ray, now India's ambassador in Washington. Incidentally, it was during Ray's overlordship in West Bengal that the criminalisation of state politics was initiated under state and Congress patronage. Das Munsi and Mukherji, the two leading lieutenants of the two West Bengal faction

leaders, were then the closest comrades-in-arms of Ray's strongarm brigade. This, of course, is not the first instance when the green signal for criminal aggression against rivals has boomeranged on the signallers themselves!

WORLD HEALTH

Shifting the Burden

THE growing crisis of health care in the last decade has in recent times produced, several responses from concerned governments. The *World Development Report 1993* is what may be termed a global response where the problems besetting one sector of the global economy are sought to be resolved by restructuring the other sector. This is hardly surprising and is in fact the basis of the historical relationship between the developing and the developed worlds, and on which international capitalism is hinged.

The report makes no bones about the fact that its main concern is the rising cost of medicare the world over, a large proportion of which is contributed by the developed economies. In 1990, it points out, the US spent 12.7 per cent of its GNP on health care with the UK spending a low 6.1 per cent. The US per capita spending of \$ 2,800 is over \$ 1,000 more than in any other country. Even Japan, whose universal health care has figured prominently in the current debates on medical spending, spent around \$ 850 per head on health care.

In contrast the low income countries spend \$ 2 to \$ 40 per person on health care. Yet the *WDR's* prescriptions are directed at changing the pattern of health spending in these countries: rationalising (read limiting) the spread of government-aided clinical care and, by various means, allowing and encouraging the growth of private care in a regulated market.

This apparently unreasonable approach to changing the health care scenario can only be understood in the light of the realities that developed countries are facing. For instance, the list of reasons for the escalating costs of health care in these countries presents a vivid picture. There has been a proliferation of health care facilities; in Japan, for instance, there are 10,000 hospitals with the government footing 72 per cent of the bill. The proportion of older population is increasing, necessitating longer or more frequent hospitalisation and long-term care, and more sophisticated diagnostic, treatment and surgical facilities. A third reason is what is termed as inefficiencies and unnecessary use of "an ever expanding array of sophisticated and ever more costly

technologies for diagnostic tests and surgical procedures". The fact is that the internal dynamics of the medical industry spawned in developed economies is such that this over-use is inevitable and a sign of narrowing markets for the industry. In the pharmaceutical industry too, with increasingly larger investment being needed for sophisticated drugs, maintaining or increasing returns on investment in a shrinking market has become difficult. Over the last decade there have been several attempts to capture new markets in countries like India. But the obvious problem has been the rigid limits to public spending in health where, because of welfare priorities, there cannot be excessive expansion of sophisticated services. On the other hand, in developed countries, where a growing population of the elderly would require such care, there are no purchasers, except the state already reeling under recession and a sharply increasing burden of unemployment benefits.

The situation in third world countries is in fact quite different and offers apt solutions for the problems of the health care industry worldwide. In the movement towards liberalisation of economies, governments are in unseemly hurry to shed welfare obligations without appearing to do so. Moreover, these societies also offer two other features necessary for the expansion of the medical industry: a rising middle class with purchasing power and the inclination to try sophisticated care and a burgeoning population of medical and related specialists who will increasingly find it difficult to migrate to the west, but who can operate successfully in a private health care market open to the influence of the medical industry abroad.

The *WDR 1993* offers therefore an ideal formula which satisfies the needs of developed country governments and allows ruling classes in developing countries to maintain the *status quo*. The problems of international capitalist development may thus be dealt with in the time-honoured way by restructuring third world economies and distorting their societies.

RAJYA SABHA ELECTION

Shock for Left Front

THE cross-voting by some of the Left Front MLAs in the election of six Rajya Sabha members by the West Bengal Assembly, the polling for which was held on August 17, has created history of sorts in Left Front politics. For the first time, at least one MLA from the two leading front partners, the CPI(M) and Forward Bloc(FB), indulged in cross voting. Indeed, altogether seven MLAs, expected to

vote for the Front candidates voted for the Congress(I) stalwart Pranab Mukherji who secured 49 first preference votes as against 42 needed for ensuring his win, which coincidentally is also the Congress(I)'s own strength in the state assembly. From the counting of votes, it was found that three of the six Front candidates failed to poll their allotted and expected votes while Pranab Mukherji polled in excess of his requirements.

The shock effect on the CPI(M), the leading force in the Left Front, was palpable. Chief minister Jyoti Basu, then in New Delhi, was reported to have bluntly conceded that this revealed a fracture in the front unity. CPI(M)'s state leader and Left Front chairman, S Dasgupta, admitted that at least four front MLAs were guilty of cross-voting. Since then investigations are proceeding for identifying the guilty.

This justifiably causes concern within the front and among its well-wishers, but not for the reason that this in any way portends the break-up of the front. That is not on the agenda at all. The entire electoral history of West Bengal since the first emergence of the Left Front in 1967 has brought it home to all the constituents that none of them can do without the others, not even the CPI(M) even if it has a two-thirds majority of its own in the state assembly. Even then this party has to depend upon the 8 to 10 per cent of the votes polled by its present front partners in order to reduce the Congress(I) to a minority in the assembly. The other Left Front parties have also learnt from experience that there is no prospect of survival with a left signboard without the CPI(M)'s support—unless of course the party is prepared to accept the SUC's option of just a nominal presence in the assembly.

The real portent of the cross-voting nevertheless is very serious: this is for the first time in the post-independence period that MLAs' votes have become a purchasable commodity in West Bengal. For it is improbable that a Left Front MLA has voted for Pranab Mukherji either for his looks, or his 'charisma' or for any other personal distinction. Some suitcases must have changed hands somewhere.

PALESTINE

Many Interests at Stake

RECENT developments related to the issue of Palestine present themselves in the form of what on the face of it looks like a paradox but is actually a common instance of political phenomena of a par-

ticular type: the question of Palestinian independence seems to have inched closer to an eventual resolution, but the chief architect of this development, Yasser Arafat, faces increasing pressure, from within and outside the PLO, to adopt a tougher posture *vis-a-vis* Israel and in the ongoing negotiations. From outside the PLO this pressure comes from the fundamentalist Islamic group, Hamas; from within, its source is two-fold: One, the PLO militia's tough-talking commander in Lebanon, Munir Mahdah; two, Nayef Hawatmeh, the head of the Democratic Front for the Liberation of Palestine, one of the largest factions in the PLO. While the motives of the latter two are, at worst, ambiguous, those of the former are clear: by rejecting the autonomy plan and by raising a call for fighting to recover all Palestinian territories in what is now Israel, the Hamas aims to fill the space, particularly in occupied Palestine, left vacant due to the disarray, attributed to Arafat's pro-Iraq stand in the US-Iraq war, in the PLO rank and file. This pressure nevertheless has a positive side. As such pressure usually does, it would keep Arafat on his toes: he would neither want to lose his popularity among the PLO rank and file nor wish to alienate the more influential and articulate among his colleagues and subordinates. In other words, he would do exactly what his critics desire: take a tougher stand towards Israel, at least seemingly. It is doubtful, however, that the pragmatist in Arafat would let go of what the negotiations seem at the point of delivering: Palestinian self-rule in the occupied Gaza strip and the West Bank town of Jericho; Israeli recognition of the PLO; and Israeli willingness to discuss the return of Palestinian refugees who fled the occupied territories during the 1967 Arab-Israeli war.

The proposed agreement, as it stands, has obvious limitations, to the disadvantage of the Palestinian people: The Israeli army, which would withdraw from population centres, would still remain at 'security locations'; Israel would maintain control over entry points to the autonomous areas; Jewish settlements would not be dismantled and would remain under Israeli sovereignty; and the Palestinians would run a police force, but the Israeli army could always intervene, for a period of five years, in case of 'grave violations' of the agreement. As can be seen, Israel has left sufficient scope, in the agreement, for maintaining *de facto* politico-military control over the regions. The Rabin government has also attempted to ensure that Jewish voters in the occupied territories are not unnecessarily antagonised. However, if the tendency to

suspect every move by Israel, in the ongoing struggle for the control of Palestinian lands, is tempered, this deal, if it comes about, seems, for the moment, good enough. Accepting it should not normally be viewed as tantamount to accepting, *in toto*, the conditionalities of Israel. It should be legitimate to maintain that in Israel the political parties and leaders have compulsions which go beyond, what can only be called, their entrenched hegemonic perceptions and ambitions, and that their unwillingness to cede even an inch of ground, both geographic and political, without having been subjected to the most bitter and protracted of assaults, stems partly from these compulsions.

Nevertheless, it would be an instance of political naivety of the most ludicrous kind to suggest that such assaults, once the deal has been clinched, should not go on. The future success of these assaults would depend, as before, on a number of factors, the most important of which, in the long run, would continue to be the geo-political and geo-strategic interests, in the region, of what is now called the sole world power, the US. In this connection, the statement by the US secretary of state, Warren Christopher, that with respect to the US policy on the PLO "there has been no change", but that there is a rapidly changing environment which the US is "following very closely", should be noted. This deliberately ambivalent attitude leaves scope for a vast range of manoeuvres some of which could continue to go against the interests of the Palestinian people. The second most important factor would be the attitude of the major Arab states, both sheikhdoms and others, towards the US on the one hand and towards the prospect of the emergence of an independent state of Palestine on the other. That the authoritarian and socially repressive sheikhdoms have been wary of such a prospect is common knowledge. What may yet surprise a few is the behaviour of the relatively democratic Arab states, such as Egypt which, for reasons economic, prefer to adopt a bland response to the anti-Palestinian depredations of Israel. The most immediately relevant factor, however, would be the alignments and/or realignments within the PLO, and the Palestinian movement. The relatively moderate faction of the Palestinian movement represented by the PLO, and within the PLO by Arafat, may not be best placed to promise guaranteed success to the movement; however, its replacement by the fundamentalists of the Hamas variety would certainly ensure the failure of the eventual Palestinian state.

Birla Ericsson Optical

BIRLA ERICSSON OPTICAL, promoted by Priyamvada Birla with Ericsson Cables AB of Sweden and Universal Cables and Vindhya Telelinks of the Birla group, is making a public issue of 87,50,000 equity shares of Rs 10 each at par aggregating Rs 8.75 crore. The issue will open on October 4. The issue is intended to finance the company's optical fibre cables project with a capacity of 4,000 cable kilometres per annum being put up at Udyog Vihar in Rewa district of Madhya Pradesh in technical and financial collaboration with Ericsson Cables. Optical fibre cables are extensively used for long distance communication systems, urban area networks, railway signalling and defence. The project is expected to cost Rs 47.50 crore which is proposed to be financed through equity share capital of Rs 25 crore (Ericsson Cables Rs 7.50 crore, Indian promoters Rs 8.75 crore and public issue Rs 8.75 crore), rupee term loans from IDBI and IFCI Rs 17.35 crore, non-convertible debentures placed privately with IDBI and IFCI Rs 5 crore and state subsidy Rs 15 lakh. Trial runs are expected to commence in October and commercial production in December. IDBI (Merchant Banking Division) and SBI Capital Markets are the lead managers to the issue.

Thapar Ispat

Thapar Ispat, an existing profit-making, dividend-paying company promoted by the Thapar group, has entered the capital market on August 16 with a rights issue of 10,85,250 zero interest secured fully convertible debentures of 100 each for cash at par aggregating Rs 1,085.25 lakh. The rights offer is being made in the ratio of five FCDs for every eight equity shares held as on June 30, 1993. Each fully convertible debentures of Rs 100 will be converted into two equity shares of Rs 10 each at a premium of Rs 40 per share at the expiry of 12 months from the date of allotment. The rights issue is being made to part finance the cost of company's forward integration project of setting up a rolling mill for the manufacture of mild steel flats, bars, hexagonals, squares, rounds, etc, of different sizes with an installed capacity of 54,000 MTs per annum. Trial runs are expected to commence in November and commercial production soon thereafter. The project is estimated to involve a capital outlay of Rs 1,200 lakh as appraised by Industrial Development Bank of India (IDBI), who have also sanctioned a term loan of Rs 100 lakh. The balance cost of Rs 14.75 lakh is being financed by way of internal accruals. Meanwhile the company has performed exceedingly well in 1992-93. For the six-

month period ended December 31, 1992, the company registered a turnover and other income of Rs 1,148.92 lakh with cash accruals of Rs 244.44 lakh. After providing for depreciation of Rs 18.46 lakh the net profit is placed at Rs 225.98 lakh resulting in an annualised EPS of Rs 26 as on December 31, 1992. The book value is placed at Rs 47.53.

Filatex India

The public issue of 18,00,000 equity shares of Rs 10 each at par aggregating Rs 180 lakh of Filatex India opens on September 14. The object of the issue is to part finance the project being put up by the company to manufacture 500 tonnes per annum of monofilaments at Noida, UP. The project is being set up in technical collaboration with Reifenhauser GmbH and Co, Germany. Reifenhauser is among the world's best producers of monofilament equipment and will provide a fully automatic computerised plant to the company. Monofilaments find wide application in brush bristles, forming fabrics and dryer screens for paper industry, sewing threads, zippers, sports racquet guts, artificial turf and magic fasteners. Some of the company's products will be import substitute products, being manufactured in India for the first time. Filatex India is promoted by Purshottam Bhageria along with his brothers Madhusudan Bhageria and Madhav Bhageria. The cost of the project is Rs 1,350 lakh. Foreign currency and rupee term loans totalling Rs 770 lakh have been sanctioned by IDBI and ICICI. Out of the total equity of Rs 580 lakh, the promoters will be investing Rs 400 lakh which is 69 per cent of the post-issue equity and the balance of Rs 180 lakh is pro-

posed to be raised through the public issue. Commercial production is expected to commence in October.

Uniplas India

Uniplas India, a leading company in the plastics industry, is poised for further rapid growth. The latest expansion project, the third within five years, is nearing completion and this will raise capacity from 32,000 tpa to 50,000 tpa. Apart from the ongoing expansion of the existing PVC pipes and rotational moulded products, a new diversification project is to manufacture and supply pipes and fittings for use in the developing gas distribution sector. Support will be provided from British Gas Plc and Uponor Aldyl, formerly part of the Dupont group. According to J B S Bakshi, chairman, over 80 per cent of the present project is already complete and the facilities would be fully operational this year. With this, the company expects to touch Rs 205 crore in turnover in 1994-95 and a profit before tax of Rs 17.9 crore. To part finance the project the company is offering 2.6 million 15 per cent fully convertible debentures of Rs 150 each for cash at par aggregating to Rs 393 million on rights basis in the ratio of 35 debentures for every 100 equity shares held. Part A of the debentures of Rs 60 will be converted into two equity shares of Rs 10 each at a premium of Rs 20 per share on the expiry of six months from the date of allotment and Part B of Rs 90 into three equity shares after 12 months from date of allotment. The gas pipe project is a strategic diversification into an extremely high technology and high growth potential area. About seven million homes in Bombay over the next year or so follow-

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ed by New Delhi and many more cities will have the facility of 'gas on tap'. The medium density polyethylene pipes to be made by Uniplas are internationally established as the most economical, safe and convenient way to transport natural gas for consumer and industrial consumption. Bakshi has further disclosed that several new projects including a new export-oriented polymer fabrics project, the first of its kind in India, and a financial services company are envisaged soon. Uniplas is also participating in its first joint venture abroad in Dubai where Dasco Plastics will be provided technology and management support from India. The venture will become operational in early 1994.

Trina Quebec Gears

Trina Quebec Gears, a 100 per cent export-oriented unit for manufacturing customised hi-tech industrial gears and gear boxes at Bahadurgarh, Haryana, in collaboration with Quebec Gear Works (QGWL), Canada, is the only project of its kind in the Asian subcontinent. QGWL, which is providing comprehensive support to the company by way of transfer of technology and know-how, supply of plant and machinery on deferred credit and equity participation to the extent of 15.42 per cent of the company's issued capital, has also entered into an arrangement with the company to buy back Canadian \$ 25 million worth of goods or 75 per cent of the production per annum whichever is less. According to the company's CEO, Pankaj Khera, in Canada the labour cost comes to 40 per cent of the total production cost, while in India labour cost does not exceed 8 to 9 per cent of production cost. The plant and machinery has been supplied from Canada on a five-year deferred credit basis. Installation and trial runs which will be done under the supervision of QGWL technicians is to commence shortly. The project costing Rs 14.62 crore has been co-promoted by Haryana State Industrial Development Corporation with 10 per cent (Rs 65 lakh) participation in the Rs 7 crore post-issue equity. To part finance the project the company will enter the capital market on September 6 with a public issue of 38,37,000 equity shares of Rs 10 each for cash at par. The projections made by the company place turnover at Rs 525 lakh, Rs 1,080 lakh and Rs 1,260 lakh and net profit at Rs 205 lakh, Rs 424 lakh and Rs 546 lakh in 1993-94, 1994-95 and 1995-96 respectively. The company expects to pay a 15 per cent dividend in 1995-96.

Bhakra Agro Industries

Bhakra Agro Industries, promoted by Sanjeev Ahuja, Ved Prakash Ahuja and Sandeep Ahuja, who are already having a unit for oil expelling and are producing nearly 15 metric tonnes per day of oil, is establishing an edible oil refinery at Sirsa (Haryana), a 'C' category backward area, eligible for state capital subsidy and sales

tax and other benefits, at a capital outlay of Rs 496.4 lakh. The installed capacity of the plant is 15,000 tpa. The project envisages refining of crude mustard seed, rape seed and cotton seed oils. Commercial production is expected to start this

month. To finance the project in part the company proposes to enter the capital market soon with a public issue of 21,50,000 equity shares of Rs 10 each at par totalling Rs 215 lakh.

—JK

COMPANIES

Focus on Entrepreneurship

Jairaj Kapadia

ONE observes from the directors' report of Mafatlal Industries (MIL) for the year ended March 31, 1993, that it devotes nearly a page to entrepreneurship and project promotion by the company. The areas and outfits covered are: Gujarat Gas Company, which has established a natural gas distribution network in Ankleshwar, Bharuch and Surat; Padmatex Engineering, manufacturing high precision textile machines, in which MIL subscribed for further equity of 3,18,720 shares of Rs 10 each issued at a premium of Rs 15 per share on rights basis; Trumac Engineering Company, an existing profit-making company, in which again MIL subscribed for further share capital of 1,27,671 rights shares enhancing its shareholding to 3,32,771 (35.25 per cent); Mafatlal Engineering Industries in which MIL is to provide for loss on investment of 80,002 shares following the BIFR's winding up orders; NOCIL in petrochemicals; Mafatlal Finance Company in which MIL subscribed for a less number of rights shares (39,50,000 shares against the offer of 89,99,100 shares) whereby its shareholding became less at 49.5 per cent and Mafatlal Finance ceased to be its subsidiary; and finally, the entering into an MoU with Hindustan Oil Exploration Company to carry out exploration of oil and natural gas in Pranhita Godavary Block on production sharing basis. In addition, MIL increased its investment in equity shares of the Mafatlal Fine Spinning and Manufacturing Company from Rs 818 lakh to Rs 2,194 lakh.

Maintaining such promotional role and in addition taking on whatever NOCIL's responsibility is to devolve upon it, MIL is surely required to augment its resources. It did do that during 1992-93 with a rights issue of 13,45,000 shares of Rs 100 each at Rs 400 premium in the proportion of one-for-one to the shareholders. Since the close of the year it made the first and final call of Rs 250 per share (Rs 200 of it by way of premium) making the shares fully paid-up. This is to have raised further the share capital which on payment of Rs 50 for the rights shares increased during the year from Rs 1,345 lakh to Rs 2,001 lakh and enhanced the share premium account to Rs 3,694 lakh (excluding Rs 66 lakh of allotment calls in arrears) during the year.

Despite borrowings having gone up from Rs 9,568 lakh to Rs 14,957 lakh, MIL's debt-equity ratio was not particular-

ly worse at 1.46:1.00 as compared to 1.44:1.00 in the previous year. There is an accretion in loan funds on account of debentures from Rs 500 lakh to Rs 1,500 lakh. A sum of Rs 1,173 lakh was repaid as principal to banks and financial institutions, while the company utilised Rs 3,296 lakh of modernisation and project loans from the financial institutions. It has since the close of the year augmented its resources to the extent of Rs 7,000 lakh by temporary borrowings from inter-corporate sources. It is further pursuing various alternative sources for medium and long resources for the various needs of its business.

While such was its financial position, all of this underlines MIL's urgency for funds. Meanwhile, helped by production of better quality and high value added processed fabrics, textile exports by the company rose by 38.42 per cent from Rs 5,369 lakh to Rs 7,432 lakh. While sales overall increased, profits declined due to higher costs, yet the company maintained the dividend at Rs 35 per share on the enhanced share capital, declaring it *pro rata* on the rights shares in proportion to capital paid-up. The EPS as well as the book value per share as in the table alongside are on the basis of the amount of capital paid-up on the rights shares.

NOCIL

Competition from Imports

Since the Royal Dutch/Shell Group's shareholdings in the company were absorbed by MIL's nominees, the National Organic Chemical Industries has made a 1:3 bonus issue to the shareholders. To this extent the investments have stood augmented, while in terms of the share's latest market value of Rs 875, they have appreciated by 22.81 per cent. Surely, the swap has paid off MIL's nominees, besides earning them the final dividend of Rs 24 per share. Together with the interim dividend of Rs 16 paid earlier, the company maintained for 1992-93 the total dividend at Rs 40 per share.

A major planned shutdown of the Thane complex during March-April 1992 continued longer than scheduled. Besides, there were interruptions in power supply while the transporters' strike in July 1992

adversely affected operations. Meanwhile, naphtha price was raised by the government from Rs 4,951 per tonne to Rs 6,745 per tonne in September 1992 and the basic rate for electricity was revised upwards from Rs 1,730 per MWH to Rs 2,120 per MWH from June 1992. The increased costs were partly recovered through selective increases in selling prices. Sales of petrochemicals thus amounted to Rs 644 crore against Rs 603 crore for 1991-92, while those of agrochemicals were just about the same at Rs 104 crore as against Rs 105 crore in the previous year. Margins shrank, but with a saving in tax from Rs 3,435 lakh provided in the previous year to Rs 2,260 lakh, profit after tax showed a small increase from Rs 3,214 lakh at Rs 3,260 lakh. EPS made the impressive figure of Rs 90.55 of which 44.17 per cent was paid out as dividend.

The company is facing in petrochemicals increased competition from cheaper imports arising from depressed international prices and a lower tariff structure and also on account new entrants in the domestic market. After the steep hike in naphtha price, imports of naphtha are now decanalised. The company is pinning

hopes, pending finalisation of expansion-cum-modernisation programme, on importing naphtha as a cost reduction measure. The company maintained a positive net foreign exchange balance for the fourth year in succession, earning from exports and other activities foreign exchange worth Rs 67 crore, while it expended Rs 26 crore of foreign exchange for imports and various remittances.

PIL Lower Margins

Although the side-kick of NOCIL as a downstream project, the polymers company Polyolefin Industries is breaking loose from the petrochemicals complex by supplementing and augmenting NOCIL's supply of ethylene from IPCL by commissioning a gas pipeline from the latter's Nageethane complex to PIL's site on Thane-Belapur Road. One option to help NOCIL go ahead with its expansion plan that is being considered is to merge PIL with NOCIL. However, IPCL's ethylene supply is to be PIL's mainstay, as it is to augment availability of ethylene by more

than 60 per cent and enable PIL to utilise fully its production capacity of high density polyethylene (HDPE) as well as ethylene vinyl acetate (EVA) co-polymer of which it is the only manufacturer yet in the country. Indeed, the results have started showing. In July 1993, HDPE production amounted much more at 3,700 tonnes compared to 2,500 tonnes in July 1992. Against the installed capacity of 50,000 tonnes, production of HDPE during 1992-93 was 31,850 tonnes, and against the installed capacity of 6,000 tonnes, production of EVA co-polymer was 4,309 tonnes. With additional ethylene supplies from IPCL, production this year will rise even though the company is to be contending with competitive imports of HDPE.

But while production during 1992-93 increased by a small margin from 30,903 tonnes to 31,850 tonnes, sales of HDPE declined from 27,921 tonnes to 25,239 tonnes. However, EVA co-polymers production as well as sales were more at 4,309 tonnes and 3,919 tonnes, respectively, compared to 3,446 tonnes and 3,224 tonnes in the previous year. Both production and sales of rubber chemicals were the highest so far at 9,349 tonnes and 5,180 tonnes, respectively, as against 7,693 tonnes and 4,392 tonnes in the previous year. Gross sales improved substantially, but profits declined sharply, as margins were severely curtailed after the company had to match its prices with those of imported HDPE while its input cost increased substantially and was not possible to recover in selling prices. Dividend to the shareholders, declared in two parts, interim and final, was maintained at Rs 45 per share.

A pilot plant for antioxidants was commissioned during the year and with commercial production starting it will be substituting presently imported antioxidants for the plastics industry. Production of polymers is to be broad-based with a plant to be commissioned during the first-half of 1993-94. There was an outgo of Rs 1,489 lakh in foreign exchange during 1992-93 as against export earnings of Rs 580 lakh compared to Rs 462 lakh in the previous year.

PASUPATI SPINNING Expansion Project

Pasupati Spinning and Weaving Mills is launching a major expansion programme which envisages setting up a capacity of 12,500 spindles of knotless polyester-viscose yarn at its existing plant site at Daruhera in Haryana at an estimated capital outlay of Rs 25 crore. The company has an existing complement of 27,000 spindles for the manufacture of polyester-viscose yarn, which achieved 95 per cent capacity utilisation in 1992-93. With the new expansion, the total PV yarn capacity will increase to 39,500 spindles. The new spindleage will be totally geared for the manufacture of double yarns

The Week's Companies

(Rs lakh)

Financial Indicators	Mafatlal Industries		NOCIL		PIL	
	March 1993	March 1992	March 1993	March 1992	March 1993	March 1992
Income/expenses/profits						
Net sales	24301	20034	56401	53599	30100	26623
Excise duty	1468	1099	8010	6703	5162	4273
Other income	1824	1443	3333	3104	1200	1218
Increase (decrease) in year-end finished stock	1037	560	1940	(641)	864	256
Raw materials consumed	10341	7661	31643	35855	18849	14337
Power and fuel	2787	2354	3290	2454	2057	1490
Other manufacturing expenses	2962	2653	2456	3160	806	590
Labour cost	3055	2731	3987	3533	2236	1974
Other expenses	3371	2842	10982	10806	3740	3377
Operating profits	4646	3795	9317	10253	4782	6330
Interest charges	2640	1417	2545	2187	1852	1345
Gross profits	2006	2378	6772	8066	2930	4985
Depreciation	1181	924	1252	1417	1149	977
Profits before tax	825	1454	5520	6649	1781	4008
Tax provision	5	425	2260	3435	730	2190
Profits after tax	820	1029	3260	3214	1051	1818
Dividends	517	471	1440	1440	869	869
Liabilities/assets						
Paid up capital	2001	1345	3600	3600	1930	1930
Reserves and surplus	8269	5305	16715	14895	7616	7433
Long term loans	9737	4513	4998	5432	4842	4242
Short term loans	5220	5055	11988	8902	11075	6776
Other liabilities	7268	5787	13549	13393	8772	8173
Gross fixed assets	17587	12458	28476	26642	21909	18749
Accumulated depreciation	7229	6129	17106	15922	7430	6297
Inventories	6549	4750	12030	10218	5215	4103
Of which finished goods	3992	2955	5664	3725	3305	2441
Receivables	5431	3862	4356	2469	5809	3993
Loans and advances	5848	3377	17465	16732	6343	6295
Cash and bank balances	278	270	733	425	1005	742
Investments	4025	3413	4743	5659	1384	970
Other assets	4	4	154	—	—	—
Total liabilities/assets	32495	22005	50850	46222	34235	28555
Key financial ratios						
Turnover ratio	0.75	0.91	1.11	1.16	0.88	0.93
Return on sales %	8.25	11.87	12.01	15.05	9.73	18.72
Return on investment %	6.17	10.81	13.32	17.45	8.56	17.46
Return on equity (%)	7.98	15.47	16.05	17.38	11.01	19.42
Earning per share	55.50	76.34	90.55	89.28	54.47	94.19
Dividend (%)	35	35	40	40	45	45
Book value per share (Rs)	513.24	494.41	564.32	513.76	494.55	485.08
Current market price	810	—	800	—	735	—
P/E ratio	14.59	—	8.83	—	13.49	—

which enjoy a high demand from blended suiting and shirting manufacturers. Besides, the company has set up a cotton yarn EOU at Dharuhera with an installed capacity of 12,500 spindles, which went on stream in this March. Ramesh Kumar Jain, chairman, has claimed that the company has the twin advantage of one of the lowest per spindle cost of Rs 8,055 in the spinning industry with an EOU and a highly profitable existing unit with a low equity base of Rs 3.02 crore and one of the highest multiples to the sales turnover. For the new additional PV yarn capacity, the company has procured state-of-the-art machinery from Lakshmi Reiter, Coimbatore, and Murata of Japan which will help it to manufacture international quality PV yarn. The company's financial performance in 1992-93 has been excellent with sales at Rs 54 crore, net profit at Rs 4.29 crore and an EPS of over Rs 13 on the enhanced capital of Rs 3.02 crore resulting from the conversion of partly convertible debentures in June 1992. Working in the first four months of the current year (April-July 1993) has shown a jump of over 46 per cent in sales of Rs 24.50 crore from Rs 16.77 crore in the corresponding period of 1992-93 and a more than proportionate spurt of 68 per cent in profit before depreciation to Rs 2.40 crore from Rs 1.43 crore. In view of the tax benefits accruing from the EOU, there will be no tax liability in 1993-94. The company expects to achieve exports of Rs 18 crore in 1993-94, with a likely contribution of around 85 per cent from the cotton yarn EOU. The company plans to enter the capital market shortly with a rights issue for financing the Rs 25 crore project for the expansion of polyester-viscose spinning capacity. The company has also promoted Pasupati Tawaru, a 100 per cent export-oriented Terry towel project, which is expected to commence commercial production by the middle of 1994.

SATNAM OVERSEAS

Rice Export Boom

Satnam Overseas, a leading exporter of basmati rice, has shown all round growth in the year ended March 31, 1993. The turnover of the company has shot up to Rs 5,833 lakh from Rs 2,260 lakh in 1992. Gross profit for 1992-93 was Rs 677 lakh, 129 per cent higher than last year's figure of Rs 382 lakh. Net profit rose to Rs 382 lakh, compared with last year's Rs 137 lakh. The good results are reflected in an impressive EPS of Rs 8.59 for the year 1992-93. The company has two highly modernised plants at Amritsar and Murthal in Haryana with a milling capacity of 12 tonnes per hour. It is the flagship company of the Satnam Overseas group, which has a turnover of Rs 135 crore and controls about 20 per cent of the country's basmati rice exports.

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Censoring Behind the Barricade

A G Nourani

A singularly unfortunate feature of the censorship process is that the order by the Film Certification Appellate Tribunal, while by no means a secret document is not publicised. A reading of the Tribunal's order in the case of the documentary Behind the Barricade reveals the illiberal framework within which the Tribunal and film censors work.

IT is woefully apparent that we simply cannot have the same machinery for censoring video magazines that we have for feature films. In the former speed is of the essence. Delay is fatal. The December 1992 issue of the video magazine *Newstrack* was cleared by the Film Certificate Appellate Tribunal on December 20, revising the decisions to the contrary by, both, the Examining Committee and the Reviewing Committee of the Board of Film Censors. But the Tribunal in turn imposed cuts by way of deletion of references to Pakistan and Bangladesh under the guidelines which enjoin censors to ensure that "friendly relations with foreign states are not strained". This clause is intended only to prevent lampooning of heads of foreign states.

Clearly, liberal as the Tribunal was, it was only in comparison to the two illiberal committees (see *EPW*, January 30, 1993; 'Censoring Video Magazines'). The fact is that ours is an illiberal state and the persons who are chosen as members of the Board and its committees are not always richly endowed with a liberal outlook. In July, another video magazine *Eyewitness* had its story on Harshad Mehta entirely censored only because Mehta reiterated in the interview recorded in the magazine his charges against the prime minister P V Narasimha Rao. This was the doing of the Delhi panel of the Central Board of Film Censors. *Eyewitness* decided to appeal to the Appellate Tribunal in Bombay. But the topical interview was dropped from the July issue of the magazine on the ground that the interview was 'defamatory' of the PM.

This is the heart of the matter. Words and expressions are misconstrued narrowly. What right have the Censors to delete charges against the PM on this ground ('defamatory') which the press has reported freely? Are video magazines to have less freedom than the print media? True, there is a difference. There is pre-censorship for films, not for the press. But then, the censorship guidelines must be liberally construed so that the content of freedom of expression is not unreasonably restricted.

A singularly unfortunate feature of the censorship process is that the order pro-

nounced by the Film Certification Appellate Tribunal while by no means a secret document is not publicised. The press does not bother to find out those orders and comment on them. This writer has read the full text of the order made by the Tribunal on June 5, 1993 in the case of the documentary film *From Behind the Barricade* produced by the noted film-maker Tapan K Bose and also seen the film. The Tribunal's order is disappointing. Certification to the film was refused by the Examining Committee as being violative of guidelines 2(xiv), 2(xv) and 2(xvii), on the following grounds.

- (i) that it calls in question the sovereignty and integrity of India by promoting the cause of separatism;
- (ii) that if exhibited, the film is likely to incite passion amongst certain sections against the government, security forces and other sections of citizens, thus jeopardising the security of the nation; and
- (iii) that if exhibited, it can cause communal disharmony resulting in riots and other law and order problems.

The Examining Committee was of the view that a deliberate attempt had been made to justify militancy and even a separate 'homeland' for the Sikhs; the commentary is highly critical of the police forces and the government for their actions against the militants; the security forces have been indicted of alleged fake encounters, abductions, insult to and torture of innocent family members of suspected Sikhs and their harassment in general; the story of Jallianwala massacre is juxtaposed with police firing and other atrocities on innocent Sikhs, thereby equating the two incidents and conveying to the viewers, particularly Sikhs that militants are like freedom fighters under Imperial subjugation.

The Tribunal said: "We are not in total agreement with the views on the Examining Committee, nor are we in agreement that this is a film which merits total refusal of certification".

The Tribunal added:

After having seen the film objectively and in its entirety, we find it difficult to agree with the Examining Committee that the film is a deliberate attempt to justify militancy and/or

a separate homeland for the Sikhs or promotes the cause of separatism or calls into question the sovereignty, security and integrity of India... Regarding the Examining Committee's apprehension that this film is a justification for a separate homeland for the Sikhs, without entering into a needless controversy on this aspect, to our minds, the same can be laid at rest by certain deletions which we propose to make as stated later in this order.

It is true that the commentary is critical of police forces and government. However, we do not agree with the Examining Committee that this can or should be one of the grounds for total refusal of certification. Criticism is the bedrock of democracy; and in a democracy such as ours, and of which we are as proud as is government, criticism be it of the police forces or the government is the basic need of the freedom of thought and expression without which any concept of democracy would be reduced to a dead letter, and we as a nation would be relegated to the totalitarian states of the 30s and the 40s where criticism was ruthlessly suppressed. The umbrage at the indictment of security forces in the film appears to us to be bureaucratic overzealousness. That 'fake' encounters find a place in the Indian media day in and day out, should, by itself, have been enough for the Examining Committee to realise that this is not something new and is not something which for the first time is suggested in this film. Ultimately, it must be left to the average normal viewer, to come to his own conclusion whether the encounters alleged in this film are fake or not without a narration thereof being suppressed at bureaucratic will and pleasure.

We do not see anything objectionable in the alleged juxtaposition of the Jallianwala massacre with the suggestion conveyed by the Examining Committee...the Examining Committee's reasoning that it is also 'likely' to evoke separatist sentiments in Sikhs, which in any event would be entering into the realm of conjecture and speculation which do not hold the field if this film is viewed, as indeed it should be, in its entirety by an average person of average intelligence."

So, it is not a plea for secession after all.

The Tribunal continued:

The Examining Committee's observation that the point of view of security forces is not taken and the commentary runs repeatedly against them, cannot entirely be ignored. One-sidedness of presentation can, however, be no ground for refusing total certification of this film.

The Examining Committee's observation that the general theme of the film is that the Sikhs are a tortured lot in the hands of the law enforcing agencies and the centre, is a matter of opinion honestly expressed. Merely because the Examining Committee does not agree with can never be a ground for refusal

of certification. Further, for the Examining Committee to equate a 'separate identity' with a separate nation, viz, Khalistan, is a mistake. In our nation comprising as it does of Hindus, Muslims, Sikhs, Parsis, Buddhists, Jains, Christians, etc, each has its identity without any of them being a separate nation. For that matter, in the entire film we did not hear a single word or reference to Khalistan, much less any demand for Khalistan.

These words reflect a liberal outlook absurdly. But the Tribunal said: "While we do not agree *in toto* with the Examining Committee in its stance for total refusal of certification of this film, we are of the view that this film may be given an 'A' certificate with the cuts and deletions stated immediately hereafter". Those cuts reflect anything but a liberal approach on the part of the Tribunal itself:

- (1) The black and white still of the burnt and charred body before the title of the film be deleted in its entirety as the same offends sensibilities.
- (2) In all interviews, so as to ensure the genuineness of the interviews and interviewees, except where the interviewee is a known public character, there shall, throughout the interview, be a sub-title in the language the film is shown depicting the name and address of the interviewee and the location where the interview was taken. In default, such interview to be deleted in its entirety.
- (3) At page 4 of the transcript, from the statement of the Khalsa College student, the following to be deleted:
'Q: What do you think of the terrorists?
A: You may call them terrorists, but for us, who are one with the cause, they are our Khalsa brothers. They are fighting for our just demands. From the very beginning we have lived under an oppressive regime. The terrorism of the police is far more than that of these so-called terrorists.'
- (4) From page 6 of the transcript, the following spoken by Avtar Singh Giani's wife, to be deleted, as the same offends human sensibilities, even if true:

"There I was forced to lie down on the floor. Some of the constables placed a thick roller across my thighs. Four male cops stood on the roller, two on one side and two on the other. My arms were pulled above the head and held by others. After this they started pushing the roller up and down my thighs with the four cops standing on it."

- (5) From page 11 of the transcript, the second part of interview of Tohra, the following to be deleted, as the same is an encouragement to dissipation tendencies and poses a threat to the secularity of the state enjoined by the Constitution:

"Regarding the accusation that the Gurdwara Prabandhak Committee is being used for political purpose I will like to clarify that in the philosophy of Sikhism, politics and religion are interlinked. We see politics as a part of religion. For any

religion to flourish and be in its right place in the community of nations, it must be involved in politics."

- (6) From the transcript at para 17 of page 13, with reference to Sidhartha Shankar Ray, the following to be deleted, as it is in utter bad taste, if not downright defamation: 'He was the architect of a process that is known today as 'police encounter'.'
- (7) In para 10 at page 17 of the transcript, the following to be deleted, as the same is not authenticated:
'Even canisters of poison gas lobbed in the direction of the Akal Takht proved useless as the wind blew in the wrong direction.'
- (7A) And for the same reason, in para 12 of the transcript, the following to be deleted:
'Photographic evidence suggests that he might have been captured alive and tortured before his death.'
- (8) In para 11 at page 17 of the transcript, the following to be deleted, viz,
'By the evening of 6th June the Commanders asked Delhi for permission to use tanks. This was granted. The first tank to rumble down the main entrance was immobilised by anti-tank rockets fired by the militants. The Commanders pressed in more tanks and started shelling the Akal Takht. By the morning of the 7th the Akal Takht was reduced to rubble.'
- (9) (a) Delete scenes of blood marks, blood stains and bullet marks on the walls of the Golden Temple.
(b) Delete visuals of the demolished Akal Takht.
Even though photographs of the above were carried by the media, it is proper and necessary that the above visuals be deleted in order not to hurt or otherwise revive latent memories of events not so long ago.
- (10) Delete visuals of the corpses of Sant Bhindranwale and General Shahbeg Singh. This is totally unnecessary as the same carries the film no further and does not damage its continuity.

On the above cuts/deletions being carried out, we allow the appeal and direct that this film be given an 'A' certificate.

This order imposing the cuts is set out in full. It is indefensible. What right has the Tribunal to insist on disclosure of the identity of the interviewees "so as to ensure the genuineness of the interviews and interviewees"? The censorship guidelines contain no provision for ensuring such 'genuineness' at all. The Tribunal could not have been so ignorant as not to realise that interviews without the kind of identification which the Tribunal has dared to impose, as a price of their being shown at all, are common in documentary films. One sees them on Doordarshan, BBC and CNN. The Tribunal does seem to be oblivious of the fact such imposition is tantamount to forcible disclosure of the source. A filmmaker is as entitled to depict, as a journalist is to report, an interview by a person

without disclosing his identity. This part of the Order is presumptuous and perverse.

The expression in the guidelines "human sensibilities are not offended" is qualified by the words that follow—"offended by vulgarity, obscenity and depravity". Our feature films, which regularly pass muster at the hands of our censors, show much worse than the scenes which the Tribunal wants to delete because they offend its sensibilities. This is a documentary film. The scenes of a charred body and of torture are perfectly legitimate. Nor can the remarks by the discredited Gurcharan Singh Tohra be construed as "a threat to the secularity (sic) of the state". We have seen and heard much worse in the print media and in video films from I. K. Advani, Ashok Singhal and Company.

This brings us to a fundamental question. The censors are not umpires of authenticity or accuracy or truth. It is perfectly legitimate for a citizen to level or report a charge against a public figure in a film as it is for him to do likewise in the print media. Film certification does not make the Board or the Tribunal privy to the charge. The guidelines on this point are unconstitutional as being indicative of the fundamental right to freedom of speech and expression. But which guideline covers "the secularity of the state" to use the Tribunal's quaint expression?

Deletion of the visuals of the demolished Akal Takht can no more be justified than a ban on showing the demolition of the Babri masjid.

The Tribunal consisted of Justice B. Lentin, Amir Raza Husain and Sumitra Charat Ram. Its Order begins rather pompously with these words:

Unlike many other nations in the world, ours is a democracy which upholds the various rights enshrined in our Constitution. One of these rights is the right to freedom of thought and expression. However, these rights, including the right to freedom of thought and expression, are subject to the reservations stated in the Constitution itself. In a word, it is, therefore, our Constitution and the rights it gives to our people which must prevail over bureaucratic views, however, righteously the same may be held.

In no other democracy in the world would or could the censors have imposed the kind of cuts which the Tribunal has. India shines in the third world undoubtedly. But our state-controlled electronic media and our Censorship law and practice of the Tribunal and the Censors suffer by comparison to the media and film censorship in Australia, Canada, Japan, Britain and Western Europe. Unlike them, the fundamental right to freedom of speech and expression enshrined in our Constitution suffers at the hands of the authorities. The Tribunal is no exception.

WEST BENGAL

Private Practice and Medicare

Sujit K Das

The West Bengal State Health Service Act (1990), recently declared by the Supreme Court as being constitutionally valid, bans private practice among teacher-doctors in government institutions. What will be the impact of the act on medicare in the state?

PHYSICIANS are supposed to belong to a noble profession and hence a preferential devotion to the commercial aspects of medical practice has never failed to raise eyebrows. Private practice by doctors under regular government employment is a particularly sensitive issue. Fleecing of patients with spurious treatment, neglect of emergency patients, lack of attention to poor hospital patients due to doctors' busy private practice, etc. are favourite stories for the media. The recent controversy on medical malpractice cases under the operation of Consumer Protection Act have increased public concern on the issue. Privatisation of medical practice, however, is on the increase and in such a situation, the legislation passed in West Bengal banning private practice of medical teachers in the government medical colleges has raised much expectation in all quarters, along with intense controversy.

The West Bengal State Health Service Act, 1990 came into force on May 16, 1990, but only on paper. The constitutional validity of the act was soon challenged, first in a single bench, then in a division bench of the Calcutta High Court and later in the Supreme Court and on all three occasions the validity of the act was upheld though the process took three long years.

The act was intended to bring an improvement in teaching in the medical colleges and patient-care in the attached hospitals as well as raise the efficiency of the administration. With the exception of a few postgraduate diploma courses run by private institutions, all undergraduate and postgraduate medical courses and institutions are administered by the state. The University College of Medicine, of the Calcutta University runs a few major postgraduate degree courses but only notionally; the actual job of teaching and training are carried out by other government colleges. In other words, almost all medical teachers are employed by the government. In 1958, the government constituted a unified cadre of medical officers comprising doctors of all categories including medical teachers and they were debarred from private practice. In 1965, the government temporarily allowed doctors serving in the clinical disciplines (i.e. those who come in direct contact with patients) all over the state, an option to do private practice outside duty hours but with certain finan-

cial drawbacks, e.g. a 15 per cent cut in basic pay, denial of special allowances, no entry to the highest pay scale and consequent reduction in retirement benefits. Among the medical teachers, this option for private practice was extended to only about 40 per cent officers keeping two postgraduate medical colleges entirely non-practising. In 1982, the government segregated the medical teachers into a separate stream and debarred them from private practice but the order was stayed by the Calcutta High Court. Hence this legislation of 1990.

The act now provides for bifurcation of the unified cadre into a non-practising West Bengal Medical Education Service (WBMES) cadre of teachers and another West Bengal Health Service (WBHS) cadre of non-teaching doctors. The latter being offered the option of private practice up to about 15 per cent of members. The non-practising teachers are entitled to UGC pay scales which are higher than of the WBHS doctors, and also to a higher superannuation age.

PRIVATE PRACTICE: POINTS AND COUNTERPOINTS

The government claims that the standard of medical education in the state has deteriorated because of the system of private practice by medical teachers who devote most of their time and effort on practice rather than on teaching and on hospital duties. Banning private practice will it is felt reverse the trend. The government referred to the Second Report of the West Bengal Legislative Assembly's Subject Committee on Health and Family Welfare (1990) which made certain observations: "The functioning of the medical colleges has degenerated to its lowest limit of functioning" "...medical education in our state is not only in disarray but in distress"..."it was noted that most of the teachers and principals agreed that the standard of medical education has uniformly degenerated in all the medical institutions"..."etc. The Subjects Committee recommended the constitution of a separate non-practising cadre of medical teachers. Recommendations of the Medical Council of India and the National Health Policy of the government of India are not dissimilar. While the former prescribes that "teaching staff of all departments of a medical college shall be whole-

time and non-practising", the latter calls for employment of doctors in state services on non-practising terms for both teachers and non-teachers. The government has thus wanted to project that it is a widely held belief that banning of private practice of government doctors is the key to improve standards of medical education and patient-care.

This, however, is substantially disputed by the challenging doctors with numerous counterpoints. There is no evidence on record that the teachers are negligent or indifferent to their duties and deterioration of the standard of medical education is a false statement, since, compared to all other states of India the MBBS graduates of West Bengal fare substantially better in the nationally competitive admission tests to the postgraduate medical courses. The government's own records show that the performance of the practising teachers is quite satisfactory. The doctors' arguments attempt to make out that the connection between private practice and standard of medical education is very tenuous and the facts are quite overwhelming. Before the act came into being more than 60 per cent medical teachers were compulsorily non-practising and two postgraduate institutions have all along been entirely non-practising. The fact is that these non-practising teachers do not belong to a different breed; actually the same practising teachers used to have their stints of 'non-practising' for a few years in the non-practising institutions and it is obviously difficult to find differences in their own performances between practising and non-practising periods of service. In any case, it is rather naive to argue that once they are deprived of private practice, the erstwhile practising teachers will turn virtuous and devote their best to teaching like repentant sinners. Practising or non-practising, teachers have no business to neglect their duties and it is the business of the administration to pull them up if they do. Not that private practice makes no impact on the motivation of a teacher; it does, but usually it is of a reverse kind. Practising teachers are usually found to pay more attention to teaching and patient-care since, in order to promote private practice, they strive to impress the students and junior doctors as being knowledgeable and good clinicians. A non-practising teacher has no such motivation. The doctors' arguments, however, could not make much headway in attracting public support.

While the court verdict dismisses the claims of the government doctors of a legal right to private practice, there is hardly any moral or ethical ground for claiming it as a right. If private practice is allowed for doctors, then why not for others? Think of the disastrous fall-out if government engineers are allowed to work as contractors or judges are allowed private practice! Further, inadequacy of pay and other grievances call for their own remedies but these can hardly be grounds for demanding the privilege of

private practice as quid pro quo, as some doctors have the temerity to claim. For all practical purposes one cannot escape the fact that a person cannot carry out two whole-time jobs together for a sustained period on a regular basis. A practising whole-time medical teacher, therefore, has to neglect one of the two jobs of teaching or private practice. Since the exchange of cash is a more potent force demanding instant accountability in the arena of private practice, it is easy to guess where the negligence is apt to be. All said and done, there is no moral, ethical and now, legal ground to tolerate the system of private practice by government doctors.

But clandestine or not so clandestine, private practice by doctors employed on non-practising terms of service has a very long and entrenched tradition in India including West Bengal. Elites of society show a very peculiar double standard in their reaction to this type of practice. While publicly they condemn it and demand its banning, privately they endorse, nurture and take advantage of this immoral practice. It is common knowledge that most of the teachers of the two non-practising postgraduate medical colleges were indulging in private practice before the appearance of the act. It is also common knowledge among the top echelon of the income-tax authorities that fabulous income of illegal practice of these doctors had to be kept in the 'black-money exchequer' since it could be declared legally. Lately, non-practising doctors in the rural health centres have also been indulging in illegal practice. Very few are, therefore, shocked when the media widely reported that almost all medical teachers, who turned non-practising under the provision of the act since September 1992, were carrying on the business of private practice as usual. When press reporters confronted the health minister on this issue, he only said that the government would look into it and take appropriate steps. Almost a year has since passed but the non-practising teachers are still practising. Also in the entire history of state health service no doctor has ever been penalised for indulging in illegal private practice. Considering the fact that banning of private practice of a few medical teachers involves an additional annual expenditure of Rs 6 crore, the entire efforts of the legislature and the executive appear to be an exercise in futility as well as being wasteful expenditure.

Frankly, the public is more concerned with the possible impact of the act on state medicare service than on so-called improvement of medical education. Undoubtedly, the future of state medicare service is now threatened by the overall assault of privatisation/liberalisation in the economic sphere and the conduct of the Left Front government is no exception in this respect. Private profit-making enterprises such as nursing homes and diagnostic clinics are being extended all possible state assistance including land and building at concessional rates. The expansion of the state curative infrastructure has ceased. Supply of free medicine in government hospitals and clinics has been

reduced from 100-plus drugs to only 32 items and that also suffers from irregular supply. As per the latest scheme of the government treatment charges have been enhanced and, for some services new charges have been introduced making medicare in the state hospitals dearer. Though persons earning less than Rs 1,500 per month are entitled to free service, this principle is not respected in actual practice. In such a situation, banning private practice in the teaching hospitals is expected to cause an improvement in the quantitative availability of medical service, if not in quality. But the government's indifference and reluctance to implement the ban has bewildered the expectant public. Persons not so favourably inclined towards the Left Front attribute narrow political motivation with regard to the entire exercise. The banning process was launched, they allege, for the purpose of ousting from service

troublesome doctors who have for so long resisted the pressure to join the party bandwagon and pack the medical cadre with loyal elements which include a good number of NRI doctors in waiting.

The act, in fact, gives the government unbridled authority to by-pass recruitment norms. In any case, whatever may have been the urge, to begin with, for the act to ban private practice, the prospects of better service from the doctors or for that matter, from the other hospital employees is very dim. What with political interference at all levels of government administration, free licence to corruption, peculiar tolerance of indiscipline and a painful indifference to the plight of helpless patients, the government has virtually abandoned its moral authority to take its employees to account. It is rather disappointing to see that a good public-spirited scheme is confined to paper.

Finance for Small Industry Wrong Signals

Does the impressive package of assistance offered to the small sector really benefit small units? Or does it accrue to the medium and large industries which effect purchases from the small sector?

THE achievements of the Small Industries Development Bank of India (SIDBI), as presented in its annual report for 1992-93, the third year of its operation, present a mixed picture. On the one hand, with the liberalisation of the financing schemes the bank had inherited when it began its operations and took over from the IDBI the responsibility of administering the Small Industries Development Fund (SIDF) and the National Equity Fund (NEF) in April 1990 and with the introduction of a number of new schemes of assistance, SIDBI can boast of operating today an impressive package of assistance to small-scale industries—tiny, modern and traditional. On the other hand, despite repeated complaints of inadequacy of institutional credit for the small-scale and informal sectors, the growth in SIDBI's sanction and disbursements has been distinctly sluggish in 1992-93, reflecting partly the recessionary conditions in industry and partly the clogging of the institutional credit system insofar as the small-scale and informal sectors are concerned. Such sluggishness has occurred for the first time since the SIDF was set up in IDBI in May 1986 to step up flow of assistance to the small-scale sector. But more than the slower growth in sanctions and disbursements, it is the nature of assistance which should raise doubts as to whether the actual beneficiaries of SIDBI's new schemes are small-scale units for whom they are intended or medium and large industries who effect purchases from the SSIs.

The coverage of some of the refinance assistance rendered by the SIDBI has been radically widened in 1992-93, particularly in response to the recommendations of the P R

Nayak committee which examined the adequacy of institutional credit to the SSI sector. Thus the ceiling on term loans eligible for refinance under the automatic refinance scheme (ARS), which was raised from Rs 7.5 lakh to Rs 10 lakh in 1990-91, was pushed up to Rs 50 lakh in 1992-93, raising simultaneously the extent of refinance from 75 per cent to 90 per cent of term loans under both the automatic and normal refinance schemes. The coverage under the automatic refinance scheme has also been extended to seven additional areas such as small hotels, hospitals, acquisition of computers, etc. Likewise, the coverage under the single window scheme (SWS)—a composite credit facility from a single agency for purchase of capital equipment as well as working capital—which was hitherto confined to only new SSI units, has been extended to existing units in 12 identified clusters. Major revisions had been effected earlier in this integrated refinance facility: first, the scope of the scheme was widened with the raising of the limit on project cost from Rs 5 lakh to Rs 10 lakh in 1990-91 and further to Rs 20 lakh in 1991-92 and that of its working capital component from Rs 2.5 lakh to Rs 5 lakh and again to Rs 10 lakh; and secondly, the resource support under the scheme, which was initially restricted to the State Financial Corporations (SFCs) and the twin-function State Industrial Development Corporations (SIDCs), was extended to commercial banks in 1991-92. It is SIDBI's venture into direct lending for relatively large-size projects involving outlay of Rs 75 lakh and above and term loan requirement of Rs 50 lakh and above on its own or in par-

ticipation with select commercial banks in 1992-93 that is sure to make an impact in the near future. Amongst the new schemes introduced during 1992-93, the venture capital fund created by SIDBI for extension of venture capital support exclusively to units in the small-scale sector, with an initial corpus of Rs 10 crore, is noteworthy. SIDBI has also enrolled itself as an institutional member of the Over-the-Counter Exchange of India (OTCEI) to facilitate access to the capital market for the larger amongst the small-scale units, including those eligible for venture capital support. Amongst the recently introduced schemes, the one that has achieved instantaneous popularity in terms of absorbing sizeable amounts of sanctions and disbursements relates to the direct discounting of bills covering purchases made by the medium- and large-scale industry of components/parts/accessories and equipment manufactured by small-scale units.

The overall sanctions of SIDBI (excluding short-term bills rediscounted) aggregated Rs 2,908 crore in respect of 81,983 applications in 1992-93 compared to Rs 2,846 crore in respect of 97,473 applications in 1991-92. Total disbursements increased only by 5.8 per cent from Rs 2,027 crore to Rs 2,146 crore. There has been a 14.5 per cent increase in short-term bills rediscounted from Rs 561 crore in 1991-92 to Rs 642 crore in 1992-93 though the purposes of these bills and the nature of their beneficiaries are difficult to discern from the bank's annual report.

Apart from the deceleration in the growth of overall assistance which has persisted almost since the inception of SIDBI, it is the nature of operations during the past two years which gives rise to misgivings. On the one hand, it is found that SIDBI's indirect assistance through refinance sanctions and disbursements as well as the bills rediscounting scheme have shown absolute reductions in 1992-93. In fact, sanctions (Rs 2,027 crore) and disbursements (Rs 1,450 crore) in 1992-93 under the refinance scheme were lower than what they were two years ago in 1990-91 (Rs 2,052 crore and Rs 1,562 crore, respectively). SIDBI argues that the fall in sanctions was mainly accounted for by decline in availment of refinance by banks presumably because of improved liquidity with the banking system. But there is no evidence that the banking system itself has generated a larger flow of institutional credit to the small-scale sector during the year. In fact, all direct and indirect evidences point to a steady though gradual decline in the share of small-scale industries in total commercial bank credit in recent years. Total priority sector advances of scheduled commercial bank in 1992-93 were Rs 46,653 crore, or 36.6 per cent of the total, which meant that the shortfall over the 40 per cent target had risen to over 3 percentage points.

There was a similar decline in the face value of bills rediscounted by SIDBI during the year under the Bills Rediscounting Scheme but the snug statement that this decline was more than compensated for by the improved availment of assistance under the direct bills discounting scheme for equip-

ment does not wash. In the first place, under the bills rediscounting scheme equipment purchases as well as equipment sales of the SSI units may get financed by the SIDBI, whereas the direct bills discounting scheme is essentially for financing sales of equipment and components by SSI units to medium and large industries. In the case of components, the scheme provides for small industries drawing bills against supply of items manufactured by them to medium and large industries on credit basis and in the case of equipment supplies by SSI units to medium and large units the scheme envisages direct discounting of usance bills so that deferred payment facilities are made available to the purchaser-user units. SIDBI's annual report has claimed that up to March 31, 1993 under the first category 1,800 small-scale units spread over 10 states and two union territories and under the latter category 400 SSI sellers spread over 11 states and two union territories have benefited in 1992-93. The amount disbursed under the scheme went up from Rs 83.9 crore in 1991-92 to Rs 139.5 crore in 1992-93 in respect of equipment and from Rs 63.8 crore to Rs 288.6 crore for components. Thus these two together claimed an extra disbursement of Rs 280 crore in 1992-93. In essence, this represents additional funds for medium and large units. Delayed payment of bills of SSI units by bigger units has been an endemic problem. The government issued an Ordinance in September 1992 which was followed by an enactment in March 1993 making it obligatory for buyers of products from the small-scale sector to effect payments within 30 days of the acceptance of goods and, in case of delay, pay a penal rate of 5 percentage points above the normal rate of interest. What is now happening is that SIDBI steps in and discounts bills drawn on medium and large units. Even if this were a legitimate way of supporting small-scale industries, a moot question is whether it is not preferable to provide the same amount of finance to a larger number of SSI units for their purchases of raw materials and equipment.

On the whole, the image of the institutional credit system is that it is clogged up insofar as the credit flows to the small-scale

and informal sectors are concerned. On the one hand, there is the crying need for larger institutional finance for the various categories of small-scale units which is now well documented by the P R Nayak committee of the Reserve Bank of India. On the other hand, commercial banks under the new dispensation have been rendering a smaller proportion of their incremental credit in favour of the small-scale and informal sectors. The operations of the SFCs are hamstrung by serious resource constraints, including reduced internal generation of funds due to lower recoveries. The reduced flow of credit from SIDBI to the SSI sector has coincided with the government's stabilisation and structural adjustment programmes. On the face of it, there is nothing in the new dispensation for the institutional agencies to curtail credit to the small-scale sector. But there is no doubt that the new philosophy of shifting "the focus from subsidised or cheap credit to adequate and timely availability of credit to the small-scale sectors", which was enunciated in the August 1991 industrial policy statement, has sent signals to the financial intermediaries to be cautious in lending to these sectors.

A major failing of the credit delivery system is that the offtake of institutional credit tends to be pro-cyclical, whereas the promotional and apex agencies should be able to operate contra-cyclical measures to boost effective demand in times of recession. Agencies like SIDBI show little awareness of this need, which is disappointing. If the direct discounting of bills relating to medium and large industry's purchases from SSI units is regarded as a way out, that would be a narrow interpretation of the role envisaged for SIDBI in promoting and developing the small-scale sector. For 1993-94, SIDBI has apparently proposed an increase of disbursements from Rs 2,787 crore in 1992-93 to Rs 3,150 crore on the basis of SLR-related and other low cost funds as also German and Japanese lines of credit. If the spirit behind the mobilisation of these funds is to be respected, SIDBI should focus on schemes of assistance which go to satisfy the direct credit needs of the small-scale sector.

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OBITUARY

Utpal Dutt

Sumanta Banerjee

THE Little Theatre Group (LTG), which came into being in Calcutta in 1949 (from its earlier incarnation of Amateur Shakespeareans), could have continued successfully as a repertory company of bright young Anglophile thespians in the city—just as its counterparts have survived, and are thriving now, in Delhi, Bombay, Bangalore and other Indian metropolises. But the brain behind the LTG—20-year-old Utpal Dutt—had other ideas.

His journey from the proscenium of the elite, St Xavier's College in Calcutta (where he started his acting career in the mid-1940s), to the open air of the political 'jatra' in the villages of Bengal, reflected not only his own continuing experiment with problems of dramatic form and content, but also the changing social and political realities of Bengal during the last four decades.

Incidentally, very few people today remember that Utpal Dutt's first appearance in films was in 1950—in 'Michael', a Bengali film on the life of the 19th century poet, Michael Madhusudan Dutt. The role of the Anglophile Madhusudan, who dreamed in his youth of earning a place in the galaxy of famous English poets but later turned to his own Bengali and revolutionised the form and content of Bengali poetry, suited young Utpal perfectly. Did he continue to identify himself with Madhusudan, harking back to his own transformation from a successful young actor in English plays to a powerful sculptor of language and movement in Bengali political theatre? In 1980, he wrote and mounted a play called 'Danrao Pathikbar' (a title taken from Madhusudan's epitaph) about the 19th century poet. Madhusudan's farce 'Buro Shaliker Gharey Roan' was one of the favourite pieces in his repertoire which he staged off and on.

But it was the struggle to create a politically committed theatre which gave Utpal Dutt's plays and their production a certain confidence and sure-mindedness that could lead to humanistic affirmativeness. Even as early as 1949-50, along with Shakespeare and Ibsen, he was experimenting with political plays like 'Waiting for Lefty' and 'Till the Day I Die' (by Clifford Odets). His growing involvement with the communist movement took him to the street corner campaigns during the general elections in the 1950s and 60s where he introduced the 'poster play' (precursor of today's 'street theatre')—a theatre of political message put forth in rapid, simplified and vivid forms of state expression. At election meetings in those days, people used to wait till midnight to see Utpal in the role of Bipulya Babu (a caricature of the then Congress strongman of West Bengal, Atulya Ghosh) in these skits.

With 'Angar' (on coal-miners), staged in the Minerva Theatre in Calcutta in December 1959, Utpal Dutt introduced a new style of political drama, which was to be followed by 'Ferari Fauj' (1961—on the insurrection by armed revolutionaries of Bengal in Chittagong in 1930), then the famous 'Kallol' (1965—on the RIN mutiny), and 'Teer' (1967—on the Naxalbari uprising). With a strong emphasis on the spectacle (magnificently aided by Tapash Sen's designing and lighting), Dutt negotiated in these plays a middle ground between extended agit-prop outdoor poster drama and realistic play. The political messages were accentuated and the characters became larger than life. Through most of these plays, Utpal Dutt reasserted the validity of the stream of armed struggle in the anti-imperialist national movement—a stream which was rejected and, on some occasions (like the naval mutiny), betrayed by the Congress leadership.

The reaction of the Congress ruling party was, in a sense, a tribute to Utpal Dutt's heroic attempts. To stop his plays, it set its goons on Minerva Theatre on several occasions. In 1966, he was imprisoned for six months under the Defence of India Rules.

While his plays indeed derived power from their directness, their exposure of the humbug of ruling politicians, their tensing of physical and moral muscles, there was also a tendency towards a resolute simplification of all moral distinctions which were categorised into two sharp groups. The heroes were frozen into stained glass attitudes of revolutionary gestures, while the villains were quite often turned into comic stereo-

types. Utpal was of course at his best in the role of these comic villains. Pointing out at this, years ago, a friend of mine, the late Rajinder Paul, editor of *Enact*, wondered whether Utpal was not primarily a jester, who was prepared to sacrifice everything for a laugh, and cocked a snook even at his own messages! Watching Utpal—both on and off stage—I at times felt this sneaking inclination not to take seriously all that he said. I remember the last time I met him (during an interview in Delhi, arranged some time ago, by the Sangeet Natak Akademi) and asked him about his latest play 'Lal Durgo', wherein he had made a hero of the disgraced Rumanian communist leader, Ceausescu, who had just been overthrown by a popular upsurge. I could discern in his answer a certain unwillingness to acknowledge any complexity in the moral and political world of socialism. His defence of his postures often sounded like a painfully naive endorsement of a revolutionary zeal that was young in the 1960s.

But maybe, being a sensitive intellectual, Utpal Dutt was facing a dilemma: maybe he was torn between values and beliefs with which he grew up on the one hand, and the collapse of the system in which he believed on the other. The pain of the conflict between the past and the present, between hope and despair at the surrounding reality, comes out in his moving performance as the long-lost uncle in Satyajit Ray's last film 'Agantuk'.

He will be remembered as an outstanding architect of Bengali political theatre, one who responded to the changes of his times vigorously and excitingly.

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EXPORTERS

More Lessons from Ayodhya

Gautam Navlakha

The government's response to the attack on the Sahmat exhibition in Ayodhya last month, and its subsequent actions comprise an incisive comment on its move to separate religion from politics.

IN a short statement Sahmat announced on August 21 that it was withdrawing the exhibition 'Hum sab Ayudhya' in view of the 'vicious campaign' mounted against it. This did not dissuade the Delhi police armed with a seizure order from removing and confiscating the controversial 'panel' (in fact a four-page text titled 'Ramkatha').

The alacrity displayed by the government, the speaker of Lok Sabha and the bureaucrats is striking. Overnight an insignificant sentence in one of the 83 panels of the exhibition became so controversial that the speaker of Lok Sabha felt that the government should respond to the BJP MP's demand. That a bigoted party like BJP found in that one sentence opportunity to incite passions is understandable. What was surprising, however, is that the ruling Congress party bent over backwards to appease the Sangh 'parivar' when neither the speaker, the government nor the officials have ever bothered to prosecute the RSS or the Shiv Sena for what they have said, written or done.

The government's contention is that Sahmat in citing the *Dashrath Jataka* which describes Rama and Sita as children of King Janaka of Benaras (although the story *per se* does not even mention Ayodhya or Saket) offended the religious sentiments of Hindus. This argument is an incisive comment on the government's move to delink religion from politics. In every clash between citizen's right and religious belief or sentiments, or between rule of law and faith, the government scrupulously sides with the anti-democracy forces. It is also remarkable that whereas not a single FIR was filed after December 6, 1992, the police promptly lodged a FIR on August 25 against Sahmat, its "organisers, supporters and financiers" under various sections of IPC including 120B for 'conspiracy'. Interestingly, none of the Sangh parivar leaders have been charged with 'conspiracy' for demolishing Babri masjid. Again, of the 150 persons who ransacked the exhibition, FIR was filed against only one unidentified person: In parliament the minister for internal security, Rajesh Pilot unashamedly said that the 'poster' had created ill-feeling and wondered why the organisers chose Ayodhya and not some other place like Lucknow. Several members cutting across party lines distanced themselves from the exhibition, although Left MPs later admitted their mistake. When faced with the incontrovertible fact that the sentence at issue was taken from a Jataka story, Atal Behari Vajpayee is reported to have remarked that even if that were true, he still saw no reason for displaying "such posters at this point of time in Ayodhya" (*The Times of India*,

August 24, 1993). In fact editorial writers focused on what one edit described as the 'incendiary context' to criticise Sahmat.

There is obviously no single correct line to follow on this issue and probably only mistakes to learn from. But, if democratic rights can only be exercised at 'convenient' times then rights have no meaning. Besides, the 150 storm-troopers of the Sangh parivar who made a deliberate attack on the exhibition cannot be equated with people at large. The Sangh parivar does not have a monopoly over Ayodhya, Hinduism, Indian history and tradition, etc. For 18 months under BJP rule Ayodhya was out of bounds for everybody barring the RSS and its front organisations. Even after central rule was imposed in UP, the only party leader allowed to hold roadside meeting in Faizabad-Ayodhya was Kalyan Singh. Since December 6 no all-India non-BJP party leader has visited Ayodhya to express sympathy and to offer support. Relief and compensation provided to the people who were victims of Sangh parivar's hate politics has been paltry. The administration has at every step obstructed any effort by the local Muslims to regain their lives anew. It is in such a context that Sahmat's efforts have to be placed and evaluated.

Yet, it is being argued that Sahmat ought not to have used that particular panel in Ayodhya in view of the surcharged climate. This argument is wrong and empirical evidence suggests that except for the attack by the Sangh parivar's storm-troopers and the heat generated in parliament there is nothing to indicate public outrage. This also indicates the victimisation of Sahmat has more to do with internal power politics of the Congress party than anything else. There was, for instance, neither any reason for the speaker to direct the government to heed the demand of BJP nor for Rajesh Pilot to obliquely criticise Arjun Singh for requesting the state governor to give permission to Sahmat: after the local administration had turned down the appeal. It is also interesting that so far none has denounced the Sangh parivar for attacking Habib Tanvir's play in Gwalior on August 22 or the argument of BJP MPs who defended the attack by claiming that they would not tolerate any criticism of Mahatma Gandhi or P V Narasimha Rao! This shows that the BJP is obviously feeling encouraged by sections in the Congress party to go on the offensive against secularists if only to checkmate Arjun Singh. There are enough indications to suggest that in the Rao-Arjun Singh battle, 'som yagna' and 'muktnad' are agencies to be used and discarded. In other words, the Sangh parivar's bigotry could easily have been

tackled by the government if it was really keen to combat communal-fascists.

However, while defending freedom of expression one should not be tempted to accept the suggestion made by some that at this juncture one should not voice any criticism of Sahmat. If the criticism against Sahmat that it ought not to have displayed the exhibition with that particular sentence in Ayodhya is fallacious then it is equally true that keeping silent about Sahmat taking funds from the human resources development (HRD) ministry is incorrect. Besides if the search for an opportune moment is to have any meaning then it is necessary to realise that secularists have been accused of being state-funded elitists and the entire controversy about Sahmat's HRD-funded exhibition lends credibility to this charge. It is of course important to ask whether the kind of intervention Sahmat made is possible without the support or connivance of the government. If the last minute approval given by the local administration at the insistence of Arjun Singh suggests that such support was necessary, then the subsequent developments show in ample measure the dangers inherent in relying on this government for any support or help. The question is also of whether one should go in for organising spectacular shows which necessitate a large amount of funds which only government agencies can provide. Does it also make sense to stage an extravagant show in which local mobilisation and participation receive short shrift?

There is another reason for raising this issue. The demolition of Babri masjid is like a watershed, as important as the assassination of M K Gandhi and therefore in the struggle against communal-fascism a measure of our politics. The role of the Congress government in the destruction of the Babri masjid and its equally violent aftermath raises the issue of whether any secular democratic organisation ought to allow a discredited party (or a factional leader) to refurbish its image. Especially when no one of them had the courage of their conviction to resign from the government for its role in the outrage or for continued appeasement of communal fascists? This is all the more true for a place like Ayodhya where the Muslims and those Hindus who oppose Sangh parivar have been offered little help by the government. If the argument is that it is public money and may therefore be used for the good of the public then should one seek it if a BJP government was in power at Delhi? The complicity of the government can only be diluted at the expense of our own commitment. The contrast between a generous IIRD ministry and a miserly government offering insignificant amounts as compensation to victims of communal violence also raises another issue: democratic forces have willy-nilly compartmentalised their activity into slots: artists raise no question which have to do with such matters as relief or compensation and others are disdainful of any creative endeavour aimed towards creating communal harmony or raising sensitive questions?

Politics of Biosafety and Regulatory Mechanisms

Japanese Vaccine Trials in India

K Ravi Srinivas

Many countries in the west have established definitive guidelines for research in genetic engineering. It is high time that a regulatory framework was formulated in India especially in the context of recent proposals to conduct trials of bioengineered products here.

THE recent news item on vaccine trials by Japanese in India (*Indian Express*, June 26) raises many important questions on the functioning of regulatory mechanisms in India. There seem to be total failure on the part of department of environment and other concerned departments to regulate the trials. While department of biotechnology seems to be unaware of the trials, the department of environment has given permission for four trials with genetically engineered products.

Concerns over the impact of the release of genetically engineered products, whether they are released deliberately or accidentally have been expressed since the 70s. In July, 1974 the committee on recombinant DNA Molecules in the US published in both *Science* and *Nature*, the 'Berg-Letter', in which Paul Berg and others had expressed their concern over the possible hazardous effects of genetic engineering and recommended a moratorium on several rDNA experiments. In February 1975, the Asimolar Conference on recombinant-DNA was held at Pacific Grove, California. Apart from scientists, lawyers also attended this conference and the Asimolar Statement was issued, containing recommendations about the moratorium and on containment procedures. This was followed by the US National Health Institute (NHI), issuing guidelines for physical and biological containment which was made obligatory to NHI-funded research. In 1977 guidelines on rDNA experiments were formulated in France. In May 1978 the British Health and Safety Commission issued Regulations and Guidelines Notes under the Health and Safety at Work Act and notification of rDNA experiments were made obligatory [Watson and Tooze 1981]. The Biomolecular Engineering Committee of France has been functioning since 1986 with the mandate to assess field tests of deliberately released genetically modified organisms (GMOs). A lawyer, a representative of consumers and a representative of unions are among the 15-member committee [Deshages Allen 1991]. Levidow and Tait have pointed out

that Britain has been following a precautionary approach on regulating release of GMOs.¹

In the 1980s as biotech became a fast growing industry, particularly with multinationals investing heavily in biotech research and with universities collaborating with private sector in development and research, concerns over the need for regulatory mechanisms were expressed in various fora. The Ice minus experiment in the US in mid-1980s alerted public opinion in the US and there was much opposition to such unregulated releases of genetically engineered micro-organisms in many European countries and the US [Krimsky 1991, Mellon M 1988, Wirt C S 1990, *Genewatch* 1988]. While governments were forced to take note of these concerns, repeated attempts were made to get injunctions from courts to prevent such trials in the US, particularly by the Foundation on Economic Trends, in the absence of a comprehensive regulatory framework and mechanism to regulate and monitor trials involving genetically engineered products. Over the years many international organisations like FAO, WHO, UNEP, UNIDO and UNESCO had held meetings and have had informal working groups to discuss these issues. Only recently UNIDO has published a draft set of guidelines, while EC has published directives that are applicable to member nations.² In the US despite controversies over 'deregulation' there is a mechanism to oversee such releases.

Simultaneously concerns about third world nations becoming testing grounds in the absence of public protest and strong regulatory mechanism were expressed. The dividing line between biowarfare research and genuine research in genetic engineering is too thin and blurred. It is possible to pursue research which would directly aid biowarfare in the name of producing vaccines, antibodies and studies on immune systems. Moreover in handling micro-organisms pathogenicity might be created accidentally. By inserting new genes into genome or by deleting genes from the organism, the virulence of an in-

fectious micro-organism (eg, virus) could be increased [Zalinklas 1986, Fowler et al 1988, Wheale and McNally 1988].

Using genetic engineering techniques it is possible to produce genetically modified organisms, which could find applications in control of weeds and pests, bioremediation, leaching of mineral ores, development of plants with herbicide tolerance and insect resistance, etc. Through technologies like cell fusion and micro-injection genetic modification could be introduced in an organism. The possibility has emerged for incorporating desirable hereditary traits into genomes of a wide variety of organisms ranging from microbes to animals. The use of recombinant DNA (rDNA) or 'gene splicing techniques' has opened up many new avenues for scientists for experimentation. Since such advances provide unlimited range of possibilities for transfer of genetic material between organisms, various ethical and moral questions have been raised since late 70s. As the practical applications of biotech and genetic engineering would be reaching markets and fields more than ever before within the next few decades, the regulatory mechanisms should be able to cope up with a wide variety of trials in different contexts, ranging from using transgenic animals as bioreactors to genetically modified plants.

But who decides what is acceptable and what is a genuine risk or an acceptable risk? Does the general public have any right to intervene in such debates, which demand a good understanding of science? The struggles over public participation in issues involving science and technology, ranging from contraceptives to AIDS, from nuclear power to dumping of wastes have repeatedly proved that issues cannot be couched in mere scientific terms and abstract notions.

This is becoming all the more true in biotechnology and genetic engineering as the techniques and processes could result in production of entirely new types and varieties of organisms and products. Public protests and tougher regulations make the companies pursue research in a country which has a 'conducive' milieu. Since Germany has stronger regulations, biotech companies have preferred to pursue research in the US. In the Netherlands, activists belonging to groups calling themselves as 'Raising Raisers' and 'Seething Potatoes' have disrupted the work being done on genetically modified plants by damaging field plots [Jelsma 1992]. While in Japan the citizens of Shinjuku have protested against setting up of a biotech laboratory by Japan's National Institute of Health [Murasato 1992]. But there is no consensus on major questions relating to risk and risk assessment. Experts from different disciplines do not

share the same view on assessing the potential impacts of genetically modified organisms. According to Piet Schenkelaars, who was until recently biotechnology co-ordinator for Friends of Earth, European Co-ordination Office at Brussels.

The argument that is increasingly heard that genetic engineering does not qualitatively differ from natural evolution and classic breeding and that consequently genetically engineered organisms pose no more risk than inherent in the organisms and the combination of genes they stem from. The following objections against this view must be considered: (1) Instead of more or less random recombination of the entire genome of sexually reproducing mechanisms which results from breeding experiments genetic engineering entails isolation of and recombination of distinct parts of the genome. This kind of recombination cannot be achieved by inducing mutations with chemicals or radiation. (2) Genetic engineering for the first time makes it possible to break down species boundaries, from virus to human, something beyond the realm of classic breeding. In nature this only occurs between closely related species. (3) These manipulations can be carried out much more rapidly than classic breeding techniques and on a scale far beyond the speed of natural evolution. (4) The number of genetic combinations, new organisms which carry them, and increasingly new synthetic genes hitherto unknown to nature produced by genetic engineering greatly exceeds the new traits or combinations produced by either spontaneously occurring or artificially induced mutations or classical breeding [Schenkelaars 1992].

As a contrast to this perspective Henry I Miller points out that only if the six myths that have grown around biotechnology are eliminated, its potential can be realised. The six myths are: (1) Biotechnology is a discrete entity, (2) Biotechnology and genetic engineering are new, (3) The unknown outweighs the known, (4) Novel and dangerous organisms will be created, (5) Non-pathogens will be transformed into pathogens, and (6) All technology is intrinsically dangerous [Miller 1991].

While Miller concurs with National Research Council statement "no conceptual distinction exists between genetic modification of plants and micro-organisms by classical methods or by molecular techniques that modify DNA and transgenes", Schenkelaars does not agree with what he calls as the 'additive model'. The differing perspectives of molecular geneticists and ecologists over technological risk has been analysed by Sheldon Krinsky. Krinsky points out "Herein lies the rudimentary basis for alternative philosophies of nature between ecology and molecular genetics that shape their distinct paradigms. They may have available the same facts, but may imbue them in a different notion of causality and explanation... The issue of technological

risk, requiring contributions from both disciplines to a single domain of experience has been a source of conflicting outcomes" [Krinsky 1991].

But producers and scientists tend to dismiss or play down the potential adverse consequences of ecological effects of biotechnology. Often products of biotech are promoted as alternatives to chemical pesticides, herbicides, etc [Rifkin J and Kimbrell 1990, Goldberg et al 1990]. Recently the European Parliament strongly expressed its displeasure with EC for its directive, which if approved would have put genetically modified food products as organic products.

Technology assessment is expected to contribute a more "rational relationship to a new technology, and to widen control of society over technology" [Daele 1992]. But what sort of objective assessment can be expected when the stakes are high or when the state itself sees technology as a vehicle for development and promotes investment through various schemes? Conflicts over goals and facts can be resolved if there is a consensus about what actually is the case. Divergent perceptions rooted in differing perceptions of potential risks and impacts do not easily provide scope for reconciliation. Nor can it be expected that conflicts of interest would disappear in procedural regulations, however much they are based on facts, for mere facts are not sufficient to reconcile differences of opinions. It becomes all the more problematic when conflicting interests have to be reconciled by the mediating agency, lest it lose its legitimacy before the eyes of the contending parties. So public participation, facilitated through procedures of negotiation and mediation is being practised in at least some cases. Daele attributes the growing recourse to the procedures of negotiation and mediation, outside conventional political regulation to increased political mobilisation and to legitimisation gap in the hierarchical decision-making. Thus it is possible for mobilisation to take place on issues and the movements could influence state authorities, if not federal ones to pass state level legislations. For example in the US at least two states (North Carolina, Minnesota) have enacted comprehensive legislation governing the release of genetically modified organisms into environment [Stark 1991]. The possibility of some states having a better and comprehensive regulatory framework than the national/federal one cannot be ruled out. In many cases public opinion is sought on the draft guidelines before finalising the rules and regulations. In the OECD countries and the US, environmental groups, animal welfare groups and consumers groups are vociferous on issues relating to biotech. They demand more information, force

governments to do assessments and above all the potential threat of consumer boycott ensures that both the government and industry do not have unfettered rights in matters concerning environment, health and food quality. But for such groups and coalitions, Bovine Growth Hormone (BGH), a product which was expected to be available in the market for wider use by mid-80s is yet to be approved in both the US and EC countries. BGH is approved in many third world nations like Egypt, Mexico.

The question whether third world would become a testing ground or dumping ground for biotech products, which could not be tested or sold in the countries of origin is very relevant. In 1986 20 cows were vaccinated with a genetically modified virus against rabies, developed by Wistar Institute (USA) in co-operation with Transgene. Pan American Health Organisation did the vaccination. This was done without the knowledge of Argentinian government or the workers. Soon the news broke out that some workers had developed antibodies to the virus. The experiment was terminated. But it was continued in Belgium in 1987, under different circumstances and regulations, where the protocol was reviewed and approved by National Health Council. The trials were public, with wide coverage in the press and people of the region were aware of the environmental release. In contrast to the experiment at Argentina, which was conducted in one of the most populated provinces, with no kind of containment, in Belgium the vaccine was released in a sparsely populated area [Smits M J 1990].

How do developing nations ensure that they do not become such testing grounds? Although there is no binding international convention on this, this issue is being pursued by different organisations. As a follow-up to the Convention on Biological Diversity (CBD), UNEP set up an expert panel, Expert Panel IV "to consider the need for, elements for inclusion in, and modalities of a protocol for transfer and handling of any living modified organism resulting from biotechnology, that may have adverse effect on conservation and sustainable use of biological diversity." At the final meeting held at Montreal in March this year there was no consensus as members from OECD and the US did not accept the majority viewpoint that there should be a protocol. The majority viewpoint favoured recommending the inclusion of provision along the lines of Article 4(1), (2) of the Montreal Protocol. This, if accepted and implemented would imply that each party to the proposed Protocol shall ban the import or export of controlled substances (as defined in the Protocol) from any state not party to the said Protocol. It is expected that very soon

the UN Committee of Experts on Transport of Dangerous Goods will finalise recommendations on transportations of GMOs [Leskien Dan 1993]. If such an international convention is signed, it would go a long way in ensuring that third world nations do not become victims of such testing/dumping.

But should developing nations wait till such a convention to be signed to regulate release of GMOs? It has been pointed out that even in 1991 "with the sole exception of one case in Mexico, in Latin America and Caribbean there are no mechanisms, nor is there any expertise, on the evaluation and regulation of genetically modified organisms into the environment" [IICA 1991]. IICA has drafted a set of guidelines for the release of genetically modified organisms into the environment for adoption by countries in Latin America and Caribbean nations. Such regional initiatives will be relevant and useful as nations cannot only exchange information, but also learn from each other. A proposal to set up an international information databank or resource centre was mooted and discussed in 1991 [UNEP 1991]. On behalf of developing nations G-15 group can take up the task of building up of such a resource and training centre, which could become a focal point for information dissemination and training in biosafety. The Consultative Group on International Agriculture Research (CGIAR) had issued a draft statement on biosafety at international research centres (IARCS) and the issue as discussed at BIOTASK/ISNAR seminar on Biotechnology Policy and CGIAR, in 1991 [ISNAR 1992].

Animal biotechnologies potential has been widely assessed and reported. Vaccines have been developed using genetic engineering techniques. The first veterinary vaccines using recombinant DNA techniques were Nobivac LT, K88, K99 while Omnivac-PRV is the first genetically altered virus vaccine. It is generally accepted that in future such vaccines will be made widely available. Many MNCs are pursuing research and development in animal biotechnology. Since testing of animal health products is relatively less time consuming and not subject to very rigorous testing and trials as in the case of human health products, many MNCs see animal biotechnology as a potential area for development. Concerns have been expressed on safety aspects of some of the vaccines as they have slight potential to cause human infection. Many products are in early developmental stages. It has also been pointed out that animal biotechnology could produce vaccines and other products suitable for application in developing countries [OECD 1992, OTA 1991, Loew, Franklin M 1991, J S Bunders et al

1990, A Sasson 1988, Fowler C et al 1988]. Possible risks connected with the use of genetically engineered vaccines have been pointed out by McNally Ruth M and Wheale Peter R. In an issue dialogue on release of genetically engineered organisms in the environment they had pointed out that while synthetic viruses are safe, live viruses represent a risk and hence called for regulating the use of such viruses. As many third world nations do not have such regulation, the dangerous export of vaccines into third world nations for testing has been pointed out by them. They also pointed out the potential use of live vaccines in biowarfare [Lewin Astrid 1988].

Thus although the intention to produce vaccines for animal diseases could be appreciated, the need for a regulatory mechanism cannot be overlooked. This is all the more true in case of testing of products developed abroad or imported for use. The government should not hide essential information on such trials, treating them as confidential information. The EC directive specifically mentions that information should be provided. In fact, there should be a database on such tests, which are under consideration for approval and which are in progress. This would enable scientists also to carry out independent evaluation and assessment. In the US information can be accessed through a computer and it is available at no cost. For those who have no access via computers, printed information is provided. So much so that at the end of every quarter it is possible to get information on tests held in various states. In fact, *Gene Exchange* publishes an update in each issue. Although at present the number of such tests and trials in India may be very limited in number, it is the right time for public discussion on the regulatory framework in India. Experience in the US and Europe, has shown the importance of public participation in technology assessment and regulation of biotech. Now it is up to the consumer movement, environmental groups and concerned citizens to take up the initiative.

Notes

[This article is a part of an ongoing work on assessing impacts of biotech. The usual disclaimers apply.]

- 1 The mere mention of various regulations of various countries should not be considered as uncritical acceptance of them.
- 2 The UNIDO guidelines were published in September 92 issue of Genetic Engineering and Biotechnology Monitor. In addition to that various guidelines by OECD, WHO have also dealt with release of GMOs. A detailed discussion on such individual guidelines is beyond the scope of this article.

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Coffee Trade in India

Is There a Case for Privatisation?

D Narayana

Pressures are mounting for privatisation of coffee trade. It is important, therefore, to make a dispassionate analysis of the performance of government intervention in coffee trade through the Coffee Board.

LAST year an internal sales quota (ISQ) of 30 per cent was introduced in the domestic coffee market where the practice for the last 50 years was one of pooling. This year the demand has been for a free sales quota (FSQ). These are clear steps towards the privatisation of trade. Before getting lost in the strong currents of privatisation a dispassionate analysis of the coffee trade under the Coffee Board is in order.

What has been the performance of the Coffee Board? Has it been able to stabilise producer prices or incomes? What would have happened to prices and incomes under private trade? Has the cost of marketing coffee under the Board been showing a steady increase? Has it benefited the large proportion of small producers? These are all questions of interest in this context.

GOVERNMENT INTERVENTION

Government intervention in coffee trade was in the form of the Coffee Market Expansion Ordinance of 1940, the subsequent amendments in 1941 and the Coffee Act in 1942. This was in response to the demands of the growers and the purpose was to face the low demand situation of the depression years and the exigencies of the war later. The Act vested the government with control over the industry by designating the Board as the sole buyer of coffee. Although while enacting the Act it was made clear that it was to expire at the end of 12 months commencing on the first day of July, the regulations continued beyond and have been in existence for over five decades.

The marketing organisation as it has evolved may be presented as shown in the Figure.

As per the Coffee Act, the Board has to decide the proportion of the annual crop every registered grower is to hand over to the Pool. The proceeds from the sale of coffee received in the Pool are to be distributed among the producers after deducting costs involved in the collection and disposal of coffee. The return to the grower is usually referred to as so many rupees per point. The point is a value unit of uniform applicability to all varieties and grades of coffee on a price differential scale. The sale takes into account all changes in market value to broadly reflect intergrade and vari-

etal differences on the basis of market performance.

The coffee grower is paid an advance on delivery of coffee at the Pool against future sale proceeds. An interest is collected on this advance. The Board has evolved a method of costing and sets a 'minimum release price' for the release of coffee in the internal market. The minimum release price is like the seller's reserve price made known to the auctioneer. If the market is weak the minimum is revised downwards and there have been occasions when the minimum has been fixed below the estimated cost of production.

PRODUCTION, EXPORT AND PRICES

Production of coffee in India has grown at an average rate of 4.45 per cent per year over 1953 and 1991 (Table 1). Export, which was seriously affected during the second world war due to disruption of trade and later in the late 1940s and early 1950s due to the non-availability of a surplus after meeting the domestic consumption, has grown at the rate of 6.78 per cent per year. Consequently, the share of exports in domestic production has increased from an average of 35 per cent in the late 1950s to over 70 per cent by the late 1980s. As against such spectacular growth of exports, the domestic consumption has grown only

at around 2.57 per cent a year. Further, it has shown a tendency to stagnate in the 1980s.

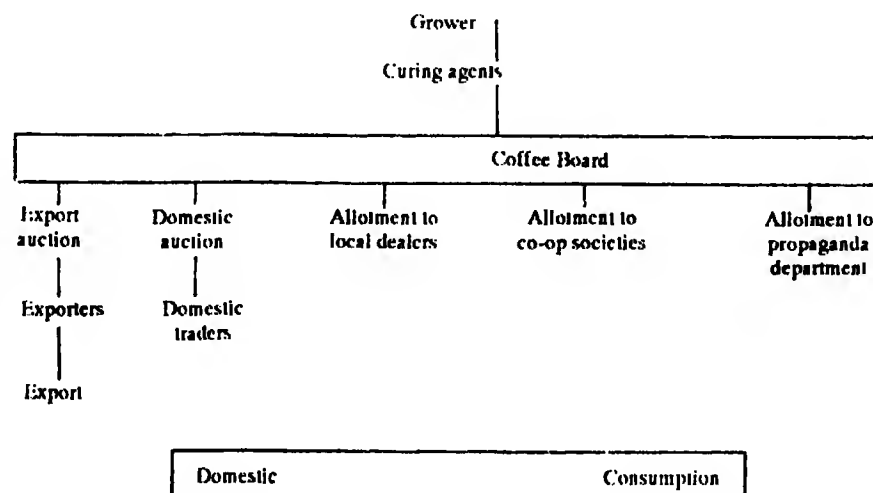
Growth is only one dimension of the story. An equally important dimension is the instability. Going by Cuddy and Della Valla's index of instability, they are 18.27 per cent for coffee production, 19.35 per cent for coffee exports and only 8.95 per cent for the domestic consumption of coffee (Cuddy and Valla 1978). As is evident, although the growth rate is lower for domestic consumption, it has shown remarkable stability. But both production and exports have shown much higher instability.

Turning to the movement of prices, the New York price of Santos 4 in dollars has shown a growth rate of 4.65 per cent over 1953 and 1988. Compared to it, the price paid to the Indian grower per point has grown at a rate of 5.25 per cent over 1953 and 1991. However, the export price in rupees has grown at 8.93 per cent largely because of the steady devaluation of the rupee during the 1980s. The wholesale price of coffee in the domestic market has grown at 5.31 per cent which is closer to the rate of growth of the price received by the grower.

Commodity prices are known to be highly unstable and coffee is no exception to this rule. The New York price in dollars reported an instability index of 48.45 per cent and the Indian export price an index of 33.68 per cent. In contrast, the Indian wholesale price showed a much lower value at 24.57 per cent. The index for the price paid to the grower is 21 per cent.

In sum, production and export of coffee had shown higher growth rates and higher indices of instability in comparison with domestic consumption. International price in dollars and export price in rupees had also shown higher indices of instability compared to the wholesale price in the domestic market and the price paid to the

FIGURE: PRESENT MARKETING SYSTEM OF COFFEE



grower. Although Indian export price in rupees has shown a higher growth rate the growth rate for the wholesale price and the producer price are comparable to the price increase in the international market. Thus, domestic consumption, wholesale price and the producer price have all shown remarkable stability in the Indian coffee market.

The remarkable stability of the wholesale price and in turn the producer price has been achieved by the controlled supply of coffee in the domestic market. Supply in the domestic market has not been allowed to fluctuate with production. An example of this is the disposal pattern followed by the Board in 1983-84 and 1984-85. In 1983-84, the domestic production was 1,05,000 tonnes, export 71,179 tonnes and domestic supply 56,079 tonnes. In 1984-85, production was significantly higher at 1,95,000 tonnes and export lower at 68,896 tonnes; but domestic supply was pegged lower at 53,544 tonnes. The controlled supply was made possible by the monopoly position of the Coffee Board.

MARKET INTERVENTION AND STABILISATION OF PRICE AND INCOME

It was shown above that the producer price of coffee had shown a remarkable stability in comparison with its export price. But how does one use this information to evaluate the performance of the Coffee Board? The criterion used here is a comparison with the free trade situation.

India is a small producer and exporter as far as world production and export of coffee is concerned. India's share in the world production and export are below 3 per cent and India can in no way influence the world prices. Given the small producer status of India, the world prices can be taken as given. Under free trade, Indian domestic price would have equalised with the world price or the export price.

Going by the instability indices provided in Table 1, the producer price would have grown at 8.93 per cent under free trade as against 5.25 per cent under pooling. But the instability would have been higher at 33.68 per cent.

It is often argued that stabilisation of price need not necessarily stabilise incomes or earnings. How has the market intervention affected the incomes of coffee growers as a whole? For this purpose, a hypothetical sales value realisation (HSVP) has been computed and compared with the actual sales value realisation (SVP). The hypothetical value is computed taking the price under free market situation. When the instability indices of SVP and HSVP are computed, it is seen that the instability index of SVP at 15.02 per cent is far lower than the instability index of HSVP at 38.57 per cent.

It may be concluded that the intervention by the Coffee Board in the marketing of coffee has not only stabilised the producer price of coffee but also the total earnings of the coffee producers.

TOTAL MARKETING COST OF COFFEE AND COST OF ADMINISTRATION

Market intervention by the Board involves a cost for running the administration of marketing and transport, storage, and other changes. One of the ways of analysing such costs is by computing the producers' share in the consumers' rupee. There is one problem in computing such a ratio in the case of coffee because the difference between the sales value of coffee and the payment to the grower consists of three broad heads: (i) total marketing cost; (ii) taxes, levies and cess going to the government; and (iii) remuneration to growers on account of commission and curing charges. The share of taxes in the total cost of administration shows considerable variation depending upon the rate of tax charged and this affects the computed margin.

As is well known, one of the ways governments intervene in agricultural commodity markets to stabilise prices is by imposing a variable tax—high rate during high prices and lower rate during low prices. In India, this has not been done very efficiently. The tax both on internal sales and exports has been an absolute amount per quintal which has not varied over long periods. The central excise duty for arabica variety of coffee which was raised to Rs 100 per quintal in 1972 remained at that level

for almost a decade. Similarly, the export duty which was raised to Rs 300 per quintal in 1976 remained at that level for a decade. Consequently, export duty as a per cent of export price varied between 4.95 in 1977 and 15.08 in 1981. Hence, the producers' share in the consumers' price is not a very good measure to assess the efficiency of the marketing organisation. The studies by Ramachandran and Ray (1991) and Indira (1993) are subject to these limitations.

We have computed the share of marketing cost in the total sales value. One of the

TABLE 2: SHARE OF MARKETING COST IN SALES PROCEEDS

Year	Share of Marketing Cost (Per Cent)	Share of Cost of Marketing Department (Per Cent)
1950-51	5.20	0.90
1955-56	5.24	0.66
1960-61	6.46	0.66
1965-66	4.71	0.77
1970-71	3.55	0.80
1971-72	10.47	1.34
1972-73	7.46	0.90
1973-74	8.93	0.84
1974-75	9.84	0.96
1980-81	3.28	0.53
1981-82	3.18	0.79
1982-83	3.51	0.81
1983-84	2.40	1.08
1984-85	5.16	0.91
1985-86	4.63	0.61
1986-87	4.00	0.79
1987-88	5.90	0.89
1988-89	7.15	0.77

Source: Coffee Board, Annual Report (various issues).

TABLE 1: GROWTH AND INSTABILITY INDICES OF PRODUCTION EXPORT AND PRICES OF COFFEE AND CARDAMOM

Variable	Coefficient of Variation (Per Cent)	Linear		Log Linear		Instability Index	Growth Rate (Per Cent)
		R ²	I ₁₁	R ²	I ₁₂		
Coffee (1953-1991)							
Production	52.06	0.80	23.08	0.88	18.27	18.27	4.45
Export	65.48	0.91	19.35	0.90	21.24	19.35	6.78
Domestic consumption	28.82	0.90	8.95	0.87	10.41	8.95	2.57
Producer price	61.09	0.83	25.21	0.88	21.00	21.00	5.25
Export price	79.39	0.58	51.45	0.82	33.68	33.68	8.93
Wholesale price	63.43	0.85	24.57	0.82	26.91	24.57	5.31
Price in US dollars	72.22	0.46	53.07	0.55	48.45	48.45	4.65
Cardamom (1964-1989)							
Production	27.19	0.28	23.07	0.25	23.55	23.07	1.99
Export	50.05	—	—	—	—	50.05	—
Auction price	68.85	0.51	48.20	0.71	37.08	37.08	7.55
Export price	56.30	0.56	37.35	0.66	32.83	32.83	7.20

Note: I₁ is the index of instability developed by Cuddy and Della Valla. They argue that coefficient of variation (CV) and related measures of instability are all *ad hoc*. They use regression model

$$\text{and define } I_1 = 100 \frac{SEI}{\text{Mean}} = CV \sqrt{\frac{(1-R^2)(N-1)}{(N-K)}} = CV \sqrt{1-R^2}.$$

It is bounded and takes values between 0 and CV. I₁ is used only if the regression model is appropriate and F and the coefficients are significant. If R² is insignificant then CV is used as the index.

Sources: Indian Coffee (various issues); Cardamom Board, Cardamom Statistics (various issues); Spices Board, Spices Statistics (various issues).

components of the marketing cost is the administrative cost of marketing department; its share in the total sales value has also been shown. As is evident from Table 2, the total marketing cost as a share of total sales value which was around 5 per cent in the 1950s and 60s increased to about 10 per cent in the early 70s. But the 80s have seen a sharp fall in it; it has come down below 5 per cent.

The share of the cost of running the marketing department in the total sales value has generally been below 1 per cent. No perceptible increasing trend can be observed here. The tendency is one where the share falls when the price of coffee tends to rise and the share rises when the price of coffee tends to stagnate. The rate of growth of the cost of running the marketing department (in nominal terms) at 13 per cent over 1965 to 1985 is well below the sum of the rate of growth of production at 4.36 and the wholesale price in the domestic market at 10.60 per cent. Thus, it may be concluded that the rather 'inflexible' marketing department has not become an undue burden on the producers.

PRODUCTION, EXPORT AND PRICES OF CARDAMOM

Cardamom has many similarities with coffee in terms of production and export characteristics. But in the product market there are significant differences. In the case of cardamom primary sale is through the auction centres. It is often argued that the auction system is more efficient than pooling. Has the auction system in the case of cardamom benefited the small producers?

Cardamom like coffee is sensitive to weather conditions. The production of cardamom showed an index of instability of 23.07 per cent and the annual growth rate itself was only 1.99 per cent (Table 1). The period considered was 1964 to 1989. The export of cardamom during the period did not show any trend. The average was 1,619 tonnes and the coefficient of variation was 50.05 per cent. The export price of cardamom in rupees had increased at the rate of 7.55 per cent and the average auction price at the rate of 7.20 per cent. The instability index was 37.08 per cent for the auction price and 32.83 per cent for the export price. It is instructive to note here that the export price instability for coffee and cardamom was more or less comparable but the average auction price of cardamom had an instability index of 37.08 per cent which is almost double the instability index of the producer price of coffee at 21 per cent.

In the case of coffee the producer price does not show any systematic variation across lot sizes; for comparable varieties and grades the small growers and the large obtain the same price. (The price obtained

by the small growers is only slightly different from that obtained by the large growers.) In the case of cardamom the price realised for lots of different sizes is different. We quote from an earlier study of ours:

As regards the price obtained in the auctions by the different lots, the study by K J Joseph (1985) shows that there existed a positive relationship between lot size and average price. The average price obtained tends to increase with the increasing lot size. The price obtained by the largest lot is 12 to 87 per cent higher than that obtained by the smallest lot, depending upon the season and year of sale [Nair et al 1989: 30].

To complete the picture, the relationship between price and quality also needs to be estimated. The estimated relationship between price, quality (quantified as weight per volume measure) and quantity of the lots showed that price was determined both by the quality of the product and the lot size. What is of significance is the importance of the two explanatory variables. We quote from Joseph (1985):

The partial correlation coefficients show that, while 68 per cent of the price variation is explained in terms of quality in the peak season, only 32 per cent of the price variation is due to quality in the slack season. On the other hand, in the peak season quantity variation accounts for only 6 per cent of the price variation, whereas it increases to 42 per cent in the slack season.

Thus, lot size explains a significant part of the variation in prices obtained at the auc-

tions. The price discrimination against lots of smaller sizes is sharper in years of higher production.

In the case of coffee, the modalities of sale do not exclude any size class of producers. But in the case of cardamom, the small producers are practically excluded from the auctions. Joseph's study showed that the share of small lots (lot size below 20 kg) in five years from 1979-80 to 1983-84 was less than 6 per cent, except in 1979-81. Data collected from the producers also showed a similar pattern. We quote the conclusions of an earlier study:

On the whole, it is seen that planters owning less than 7.5 acres do not make use of the auction centres. Further, most of the sales from the lower size classes are to local traders, part of which is in the form of wet sales. And the price obtained on wet sales is less than 65 per cent of the price obtained at the auction centre [Nair et al 1989: 89].

On the whole, the auction system in cardamom excludes the small producers and the price obtained by the smaller producers is also significantly lower than that obtained by the larger producers. Such discrimination is not to be found in the marketing of coffee.

CONCLUSION

It may be seen that the producer price of coffee has shown remarkable stability unlike the auction price of cardamom both of which depict comparable production and

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export characteristics. Producer price stabilisation in coffee has been achieved by the total control exercised by the Coffee Board on the stocks and release in the domestic market. Stabilisation of price has also brought about remarkable stability in incomes. Coffee also has the distinction of uniform producer price realisation—but for the differences in grade and variety—which is unlike cardamom where there is a systematic discrimination against small producers. The total marketing cost incurred by the Coffee Board or the administration cost of the marketing department has also not shown any significant increase over the last 40 years.

The stabilisation of the producer price and income of coffee and the consequent reduction in risk to producer has had its impact on investments in production. As already seen production of coffee has shown a steady increase over the years which is accounted for by area expansion and sig-

nificant gains in yield. In contrast, production of cardamom has shown very low growth rate and insignificant gains in yield.

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Marx the Journalist

Robi Chakravorti

Karl Marx's journalistic writings were characterised by philosophical-analytical insights based chiefly on research using as news pegs general issues affecting societies.

THE title of the article is modelled after the chapter headings on Marx in Joseph A Schumpeter's *Capitalism, Socialism and Democracy* (1950). He wrote four different chapters on Marx entitled 'Marx the Prophet', 'Marx the Sociologist', 'Marx the Economist' and 'Marx the Teacher', attempting a critical evaluation of the multi-dimensional quality of his influential career. One side of his variegated life that is often forgotten is his role as a journalist. This article focuses attention on this part of his life and the contribution that he made in the development of one type of journalism which can be described as academic or conceptual journalism.

It is difficult to correctly label the articles Marx wrote for different papers either as a contributor, editor or correspondent, the three different journalistic roles he played. I am using the term conceptual or academic journalism to describe his columns or articles since they were written as serious essays in a scholarly style, occasionally enlivened with graphic, colourful language. As Isaiah Berlin quoted one of Marx's admirer, Moses Hess, a Jewish publicist from Cologne, "He combines the deepest philosophical seriousness with the most biting wit" [Berlin 1963, p 60].

In the US, this type of writing can be traced back to mid-19th century when Horace Greeley published the *New York Tribune* for which Marx was a London correspondent from 1851 to 1862. Greeley is a big name in the history of American journalism and politics. He was a pioneer in expanding what was called the 'penny press', that is newspaper for the common people. In the presidential race of 1872, he fought against general Grant, but lost the bid for presidency.

If we place Marx's journalistic writings in the broad category of political columns we face a problem since this species of journalism range from philosophical-analytic type based chiefly on library research to pieces containing personalised impressions and gossip or muck-raking 'investigative' type which became popular in the 60s. Another difference among political columns is the use of the so-called 'news pegs' for the topic. They can be sensational contemporary events, personal scandals or general issues affecting societies I am using the term academic, conceptual journalism to distinguish it from other types of political columns which adorn popular press today. Marx's columns were characterised by philosophical-analytical insight based chiefly on

research using as news pegs general issues affecting societies.

In this type of journalism Karl Marx can be called a pioneer. Charles Blitzer in an introductory essay outlining Marx's journalistic career in *The American Journalism of Marx and Engels* [Christman 1966, p xxviii] describes him as the father of 'modern political journalism' which he describes as a "preoccupation with the social and economic background of politics and a determination to uncover the real motives that lie behind the words of politicians and governments". Isaiah Berlin in his classic *Karl Marx: His life and Environment* explains 'the real motives' part in a clearer manner. Commenting on his articles published in the *New York Tribune* he wrote that 'as journalism' his pieces were 'in advance of their time' since his method was "to present his readers with a brief sketch of events or characters, emphasising hidden interests and the sinister activities likely to result from them, rather than the explicit motives furnished by the actors themselves, or the social value of this or that measure or policy." This, according to Berlin, gives his journalism "a highly 20th century flavour" [Berlin 1963, pp 169-70].

Whichever way one interprets the journalistic dimension of Marx's career, one cannot ignore his contributions to the field of journalism and its important role in relation to his personal life which involved unemployment, severe financial difficulties and political persecution. One of the reasons for the neglect of this aspect of his life is that usually when the ideas of a great thinker spread around the world, we are more interested in analysing, advocating or criticising the ideas he originated rather than his biography and the context in which he developed his theories. Even when material related to his biography is discussed, it is usually done either to hero-worship, downgrade or psycho-analyse his viewpoints.

Unlike most other geniuses whose theories influence contemporary history, Marx seems to be a rare one who was a professional journalist in critical segments of his life and he suffered for it. His journalism career in Europe was intimately linked with his political activism. As Blitzer pointed out, "Marx's determination to change the world found expression in a variety of ways—in his editorship of radical publications such as the *Rheinische Zeitung*, the *Deutsch-Französische Jahrbucher* and the *Neue Rheinische Zeitung* in which he undertook to educate the people in preparation for the coming revolution; in his leadership of socialist movements such as the League of the Just and the Communist League through which he hoped to organise the workers and make of them a truly revolutionary class;

and above all else, in his continuing and heroic efforts to understand capitalist society and the laws of its development" [Christman 1966, p xi].

Marx paid for his political activism which was co-ordinated with his journalism with court cases and expulsion from different countries. He was expelled from Rhineland in July 1849 shortly after his release from a court case involving his stewardship of *Neue Rheinische Zeitung* in Cologne. He had been expelled from Belgium the year before and from France in 1845. Marx after a brief sojourn in Paris arrived in England on August 24, 1849. His American journalism began two years later.

Marx's journalistic career began soon after the receipt of his doctorate. He completed his dissertation (the title translated from German reads: 'Difference between the Democritean and Epicurean Philosophy of Nature') early in 1841. For political reasons, he did not submit his dissertation to Berlin University where he was a doctoral student. As a critic of religion, and friend of Bruno Bauer, another well known critic of religion, he was afraid that his dissertation would be rejected because of the clericalist influence on the administration of the university. He submitted his dissertation to a small, but distinguished university at Jena outside the jurisdiction of Prussia. The Jena University faculty acted fast; within about a week of the official submission of the dissertation, they awarded him a doctorate degree *in absentia*.

Since he had faced trouble about the acceptance of his dissertation, he knew that academic future for him is bleak in Prussia or elsewhere in Germany. In the mid-19th century Germany, established institutions were ruled by the upholders of the mystical-traditional foundations of Christianity and they closed doors to critics of the religious system or the social system. "Germany, like the rest of monarchical Europe, provided no institutionalised outlet for the energies and imaginations and aspirations of young idealists" [Padover 1978, p 130].

Journalism seems to be one field open to him, but that, too, had barriers, and his interest in the field began with a critique of the censorship imposed on the press at the time. This included a glorious praise of the freedom of the press which, in terms of his ideology developed later may sound 'liberal' or 'bourgeois'. But if we read it in the context of the political culture and practice of the times, we can see its importance for bringing about significant social change. Furthermore, if we read between the lines, we can trace what can be described as a subtle, double meaning behind his praise of the free press. Here is an excerpt from the article:

The free press is the omnipresent open eye of the spirit of the people, the embodied confidence of a people in itself, the articulate bond that the individual with the state and the world, the incorporated culture which transfigures material struggles into intellectual ones and idealises its raw, material shape...It is the mind of the state that can be peddled in every cottage, cheaper than material gas. It is universal, omnipresent, omniscient. It is the ideal world, which constantly gushes from the real one, and streams back to it, ever richer and animated anew [Padover 1978, p 133].

Marx had difficulty publishing the article. This shows the validity of his argument for free press in certain stages of social change. The article was meant for publication in a journal in Dresden by Arnold Ruge, who had spent five years in a fortress prison and lost another journal to censorship. He brought out a one-volume collection of articles in Switzerland entitled (in English translation of the German title), *Anecdotes on the Most Recent German Philosophy and Journalism* [Padover 1978, p 134]. Marx's article was in response to a censorship decree issued December 24, 1841 condemning anything critical of 'the fundamental principles of religion'. Next year, Marx became a regular contributor of a newspaper published from Cologne, *Rheinische Zeitung* later becoming its editor as its original editor was sacked under government pressure. He took over the editorship on October 15, 1842. The paper, however, was in constant conflict with government censors. As Marx put it, before any issue could appear, it had to be placed "to the police nose for smelling, and if it scents anything un-Christian or un-Prussian, the paper must not appear" [Padover 1976, p 148].

The censorship battle reached a climax when a ministry presided over by the king decreed that the paper be closed on April 1, 1843. The chief reason for the suppression of the paper was the strong criticisms he levelled against the Russian government. It had put pressure on the king of Prussia. Marx decided to resign on March 18. In a letter to friend Ruge, he expressed his feeling of frustration: "It is hard to fight for freedom and to be forced to use needles instead of clubs. I am getting tired of all the hypocrisy, stupidity and crude authority, and yet at the same time of all our softness and hair-splitting and refusal to see the truth" [Blumenberg, 1972, p 49]. A brief notice of his resignation appeared in the paper on March 18, 1843 under the name, 'Dr Marx'.

Marx's next contact with the field of journalism was brief, but replete with problems. He had, meanwhile, become engaged to get married and needed financial assistance. After his troubles in

Germany, he wanted to get out of the area. He eagerly accepted an offer from his friend Ruge to write for a journal, which was planned to appear monthly in Paris in two languages—French and German—with the objective of establishing an intellectual alliance between the two countries. The title of the journal was *Deutsch-Französische Jahrbücher*. The paper failed after the publication of the first issue in February 1844 in an edition of 1,000 copies. It contained Marx's articles on Hegelianism and Judaism, the latter earning him criticism from the Jews. The paper was neglected in France, but its copies were often confiscated at the German and Austrian border. In Austria, book-dealers were warned against handling the magazine at severe penalties.

The chief reason for the suspension of the magazine was the deterioration in personal relationship between Ruge and Marx. Ruge's opinion of Marx, of course, became biased, but his comments on Marx's journalism at this stage of his life deserves mention. In a letter to Feurbach, he gives a portrait of Marx's intellectual life and its relationship to his journalistic output. Ruge wrote:

He reads a great deal; he works with extraordinary intensity and has a talent for criticism which occasionally degenerates into dialectic. But he never finishes anything; he is always breaking off, and then plunges again into an infinite ocean of books...He may well have been born to be a scholar and a writer, but as a journalist he is a complete failure [Blumenberg 1976, p 54].

Calling Marx as a journalist a complete failure reflects Ruge's limited, particularistic, view of journalism, but Ruge was right in assessing that as a scholar and a writer his achievements would certainly be greater and more far-reaching than his activities as a journalist which were motivated partly for financial reasons and partly for their role in political activism. One must, also, remember the time-period of his life when he was apparently engaged in a passionate search for pearls of truth in what Ruge describes as "an infinite ocean of books." To combine genuine scholarship with regular journalism is not an easy task. The financial need behind his journalistic activities is, also, an important fact to remember. This became clear when Ruge suspended the Paris journal. With his wife seven months' pregnant, Marx asked Ruge for salary. Ruge paid him not in money but in copies of the magazine. His friends in Cologne came to his rescue. Some money was collected at the initiative of a wealthy admirer, Georg Jung who sent him 800 francs in compensation for 100 copies of the magazine smuggled into Germany.

Marx remained in Paris for about a year following the closure of the journal, *Jahrbucher*. He wrote two articles for a Paris newspaper, *Vorwarts*, which was suppressed. These articles were considered anti-Prussian and at the request of the Prussian government, Marx was expelled from France. Since he faced a prosecution for high treason in Prussia for his association with *Jahrbucher*, he went to Brussels. He and his family were allowed to remain there until February 1848, but he had to give an undertaking that he would publish nothing on current politics.

Marx's next involvement in journalism was in Cologne where a new version of *Rheinische Zeitung* which was closed five years ago appeared under the title, *Neue Rheinische Zeitung*. The paper had a subtitle, 'Organ of Democracy'. The editor-in-chief was Marx, and the members of the editorial board which included Engels had all been members of the Communist League. With the help of distinguished contributors, he was able to turn it into a 'first class fighting newspaper'. It saw regular publication until May 18, 1849, and according to one point of view, "with its 301 numbers it is not only the best newspaper of that revolutionary year; it has remained the best German socialist newspaper" [Blumenberg 1972, p 89].

Despite its success from this point of view, it faced financial trouble since its radical viewpoints often alienated the middle class readers and triggered political troubles from the establishment. Antagonism from these two sources reached a climax when Marx wrote a strong article on the political uprising in Paris in June 1848 and its suppression. In a leading article on the subject of the funeral accorded by the state to the soldiers killed during the uprisings, he wrote in colourful language:

The state will take due care of the widows and orphans of these men. They will be honoured in degrees; they will be given a splendid public funeral; the official press will proclaim their memories immortal... but the plebian, reviled in the newspapers, abandoned by even the surgeons, stigmatised by all 'decent' people as thieves, incendiaries, convicts, their wives and their children plunged in greater misery than ever, the best among the survivors transported—surely the democratic press may claim the right to crown with laurel their grim and sombre brow? [Berlin 1963, pp 145-46].

This type of fiery articles was tolerated in Cologne until the fear of insurrectionary type of revolt threatened the government. A martial law was declared in Cologne in September 1848 and Marx's paper was closed for about two weeks. Next month, the government began to move against the paper. Warrants were

issued for the arrest of three of the members of its editorial board including Engels who fled the city. Marx faced three court hearings; one of the cases dealt with 'incitement to rebellion'.

Marx turned the court hearing into an

unexpected political show. He delivered a speech which contained an analysis of social and political situation in Germany and abroad. He argued that all laws must reflect social realities and that when social realities change, as they had in Germany

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Backward Castes in Karnataka

G THIMMAIAH

This topical study is a significant contribution to the continuing debate on the issue of reservations. Providing a detailed analysis of the backward castes movement in Karnataka, it shows how this movement has become a pawn in the hands of power-brokers, vested interests and pressure groups.

The author analyses the distortions which have emerged in the process of the formulation and implementation of the reservation policy in Karnataka mainly because of the manipulative tactics of caste groups out to serve their own interests. In conclusion he presents an alternative approach based on objective criteria and checks and balances to ensure that the benefits of reservations reach only those most deserving them.

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RURAL VIOLENCE IN BIHAR

by

DR. BINDESHWAR PATHAK

PADMA BHUSHAN

Rs. 190

This book seeks to locate the most important incidents of violence committed in the state. The aim is to identify the social configuration of groups involved in the incidents of violence, the causes of violence and the nature of brutality therein. Violence being endemic, cases that are recent and have the distinction of being unprecedented in the phase that characterises the accentuation of barbarism in the country side have been subjected to sociological scrutiny.

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in 1848, laws must also change or become obsolete [Christman 1966, p vii]. The result of the court case surprised people. The foreman of the jury not only announced the acquittal of the accused but, also, said that he wished to thank him in his own name and in the name of the jury for an unusually instructive and interesting lecture by which they had all profited [Berlin 1963, p 146].

The government which could not reverse the verdict took the executive decision of expelling Marx. The last issue of the paper has remained a collector's item. It was printed in red ink and included an insurrectionary type of editorial where Marx made a distinction between royal terrorism and revolutionary terrorism and an emotional, revolutionary poem by poet Freiligrath. The last lines of the poem read: "When the people utter their final 'Guilty'! We will again stand together in line, With word, with sword, on the Danube, on the Rhine" [Padover 1978, p 277]. The expulsion marked the end of Marx's political and journalistic career in Europe. After a brief stay in Paris where he was presented with the alternative of either leaving France or retiring to Morbihan in Brittany, he crossed the English Channel to spend the last years of his life. His contributions to Horace Greeley's the *New York Tribune* emanated from his exile in England.

The *Tribune* was an unusual popular newspaper called the 'penny press' at the time, unusual in the sense that it openly abandoned the common sensational sources of popular appeal and yet became successful. Greeley's approach was spelled out in an advertisement for the paper. The purpose of the paper, he wrote, was "to advance the interests of the people, and to promote their moral, social and political well-being. The immoral and degrading police reports, advertisements and other matter which have been allowed to disgrace the columns of our leading penny papers will be carefully excluded from this, and no exertion spared to render it worthy of the hearty approval of the virtuous and refined, and a welcome visitant at the family fireside" [Bleyer 1927, p 212-13].

The paper turned out to be a vocal champion of socialist ideals and a respected and influential newspaper. It, also, set a standard of professional journalism that was matched by few of its rivals. It employed 14 local reporters, 20 American correspondents and 18 foreign correspondents, Karl Marx among them. It reached a circulation of over 2,50,000 [Christman 1966, p xvii].

The managing editor of the paper, Charles Dana, approached Marx to contribute to the paper. He was introduced

to Marx in Cologne by Freiligrath, a poet who was a contributor to the *Neue Rheinische Zeitung* of which Marx was the editor. Marx's association with the *Tribune* lasted for about 10 years. It provided Marx for an outlet for his views while he was doing research at the British Museum and a source of regular income which he desperately needed.

The *Tribune's* offer to Marx came at a time when the failure of 1848-49 revolution in Europe produced a flood of immigrants to the U.S. Many of the immigrants came from Germany. Between 1852 and 1854, about half a million Germans landed in New York City. Obviously, they retained an interest in their old world. One account of the paper's offer to Marx was described as "both smart journalism and good business" [Padover 1978, p 303]. Soon after the offer, Marx wrote a series of articles on Germany since 1848 and they were apparently well received. The paper's managing editor, Dana wrote Marx, "It may perhaps give you pleasure to know that (your articles) are read with satisfaction by a considerable number of persons, and are widely reproduced" [Christman 1966, p xix]. Marx became a regular correspondent for the paper. In 10 years, a total of 487 of his articles were published.

There have been some questions about the actual authorship of some of these articles. According to an account, of this total of 487 pieces, 350 were written by Marx, 125 were written by Engels and 12 in joint collaboration [Christman 1966, p xx]. Engels' articles dealt mostly with military affairs. Marx's contributions covered a wide variety of topics such as British politics, colonial impact in Asia and political situation in Europe. His views of European colonialism in Asia were expressed in a series of articles in the *Tribune*. Some of these articles dealing with India provide important material for his views of the influence of British colonialism on Indian economy and society. The titles of some of these articles are worth mentioning: 'The Future Results of British Rule in India', 'The British Rule in India', 'British Income from India', 'The British Cotton Trade', 'The Torture as a Financial Institution in British India'.

Marx faced many conflicts with the paper on publication issues. The paper often published his articles or parts of them as editorials, without attributing his name. Sometime, parts of his article were published as written by 'Our Correspondent'.

Marx's contact with the *Tribune* came to an end in 1862. Many reasons for the termination of the relationship have been offered. One is that Horace Greeley began to dislike Marx's views and asked Dana,

the managing editor to dismiss him. Dana refused. Perhaps the most important reason is the American civil war and the resultant decline in interest in foreign topics on which Marx wrote. In a letter, Marx wrote to his uncle, Lion Philips, he foresaw the problem about a year earlier. On March 28, 1862, Dana wrote to Marx that the coverage of civil war was filling the newspaper space and there was no scope for his pieces. An article on Mexico was the last one by Marx to appear in the paper.

The loss of income from the *Tribune* was a shocking financial blow to Marx. Even before the final termination of contract with the paper, his financial situation was bleak. In 1861, the paper printed only eight articles bringing him a total of sixteen pounds. A small gift of eighteen pounds from Engels helped him a little, but he could not pay the landlord whom he owed a year's rent or school fees for his children. According to an account, he was at least one hundred pounds in debt.

The end of his career in journalism coincided with his painful last years of life in England. He applied for a booking clerk in a railway office, but his tattered clothes and his appearance apparently did not create a favourable impression, and his application was finally rejected on grounds of his illegible handwriting [Berlin 1963, p 188].

Perhaps the most graphic way to describe the personal misery of this intellectual genius is provided in his own words of biting wit which often marked his contributions to journalism. In a letter to Engels, dated August 20, 1862, Marx wrote: "Dear boy (written in English), no matter what you may say, it is in reality painful to make so much bother for you with my miseries. If only I knew how to start some business! Gray, dear friend, is all theory, and only business is green." The last sentence is supposed to be a paraphrase from Goethe's *Faust* [Padover 1978, p 311].

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BALANCE SHEET (ABRIDGED) AS ON 31ST MARCH, 1993

(000' omitted).

31.03.92	LIABILITIES	31.03.93	31.03.92	ASSETS	31.03.93
3,00,00	Capital	9,00,00	131,30,62	Cash & Balances with RBI	125,89,49
7,58,92	Reserves & Surplus	21,72,25	19,47,66	Balances with Banks & money at call & short notice	34,27,63
649,53,93	Deposits	825,58,47		Investments	275,92,13
36,83,95	Borrowings	51,01,43	220,04,14	Advances	441,01,18
51,69,47	Other liabilities & provisions	52,05,46	334,38,54	Fixed Assets	17,29,71
			3,75,45	Other Assets	64,97,47
			39,96,86		
<hr/>		<hr/>	<hr/>		<hr/>
748,93,27	Total	959,37,61	748,93,27	Total	959,37,61

PROFIT & LOSS (ABRIDGED) ACCOUNT FOR THE YEAR ENDED 31ST MARCH, 1993

(000' omitted)

31.03.92	EXPENDITURE	31.03.93	31.03.92	INCOME	31.03.93
47,13,38	Interest expended	66,90,26	73,61,43	Interest earned	96,96,20
23,91,89	Operating exp.	26,83,16	5,24,84	Other income	11,64,46
5,29,59	Provisions & contingencies	13,12,62			
2,51,41	Net Profit for the year	1,74,62			
<hr/>		<hr/>	<hr/>		<hr/>
78,86,27	Total	108,60,66	78,86,27	Total	108,60,66

PERFORMANCE HIGHLIGHTS:

01. Rise in paid up capital — Rs. 6 Crores.
02. Rise in Reserves — Rs. 13.86 Crores.
03. Total owned funds — Rs. 30.72 Crores.
04. Rise in Deposits — Rs. 176.05 Crores. — Growth Rate — 27.1 %.
05. Rise in Advances — Rs. 106.63 Crores. — Growth Rate — 31.9 %.
06. Rise in Investment — Rs. 55.88 Crores. — Growth Rate — 25.39 %.
07. Total Business — Rs. 1266.60 Crores.
08. C/D Ratio 53 %.
09. Productivity per employee — 41 Lakhs.
10. Total Branches — 190.
11. Net Profit — 1.75 Crores.
12. Dividend (Proposed) 16 %.
13. Capital Adequacy Ratio 4.69 %.
14. Working Funds 959.38 Crores.
15. Rise in Export Credit 120 %.

Dunkel Draft on Drug Patents

Background and Implications

Sudip Chaudhuri

India introduced the Patents Act, 1970 in the face of tremendous resistance from transnational companies and their countries of origin. The amendments to the act proposed by Dunkel will take India back to the times when TNCs enjoyed monopoly status under the 1911 act and thwarted indigenous efforts.

THE patent system in India is currently regulated by the Patents Act, 1970. It replaced the Patents and Designs Act, 1911 in 1972. In Section I of this paper, we will discuss how the transnational corporations (TNCs) enjoyed a monopoly status under the act of 1911 and thwarted indigenous efforts to develop the pharmaceutical industry. The provisions of the 1970 act, particularly those relating to drug patents, improved the condition of the indigenous sector, which gained at the cost of the TNCs. In Section II we will briefly mention some of the important changes introduced by the 1970 act. India however has been under pressure from some developed countries for quite some time now to amend the 1970 act. In the last section we will be concerned with the background of these pressures and the implications of some of the proposed changes, particularly in the context of Indian pharmaceutical industry's experience with the acts of 1911 and 1970.

I

Patents and Designs Act, 1911

The Patents and Designs Act, 1911 did not categorically state what was patentable [*Report of the Patents Enquiry Committee (1948-50)*, p 64; Ayyangar 1959, p 20]. The interpretation followed by the Patent Office was that any new process for manufacturing a drug (whether old or new) was patentable. A new drug was also patentable provided the process of manufacture was described in the patent. The process, however, in such a case was not required to be new [Ayyangar 1959, pp 20, 34, 36].

The TNCs took full advantage of these provisions. Under the act of 1911, the indigenous firms have been legally prevented from manufacturing most of the new drugs introduced by the TNCs during the life of the patent secured by the latter, i.e., for 16 years, which could be extended to a maximum of another 10 years if the working of the patent had not been sufficiently remunerative to the patentee (Sections 14 and 15,

The Patents and Designs Act, 1911)¹ This had been possible because, as NR Ayyangar who was appointed by the government of India to examine the patent law in India observed, the patentee, while patenting a new drug, could describe all the known and possible processes [Ayyangar 1959, pp 34, 36]. Actually the TNCs did so, as the experience of the indigenous firms suggests.² Even an old process, so specified by the TNCs, could not be used by the indigenous firms for at least 16 years. The latter were also forbidden from processing a patented drug into formulations or importing it. For example, a TNC was importing a drug at Rs 8 per 20 tablets. It sued an indigenous firm, CIPLA, when the latter started importing it at Rs 2 per 40 tablets (evidence of K A Hamied of CIPLA, Joint Committee on the Patents Bill, Evidence, 1965, Vol 1, pp 149-50). Chloramphenicol and metronidazole are among the other drugs for which the TNCs took legal action to prevent the indigenous firms from formulating [Haithi Committee 1975, p 92].

Thus the TNCs holding the patents enjoyed a monopoly status for at least 16 years. Of course the law permitted an indigenous firm to manufacture a new drug if it could develop/use a process not mentioned in the patent. But as the two cases discussed below reveal, the TNCs could prevent or delay the use of these new processes, developed through indigenous efforts even when these were not specifically covered in the patents of the TNCs.

Haffkine Institute, a public sector firm, worked out a process for manufacturing tolbutamide from locally available raw materials. A patent was also obtained. Unichem Laboratories, an indigenous firm obtained a licence from it and started manufacturing the drug from 1961. Hoechst, a TNC, however filed a suit claiming that tolbutamide had been manufactured by Unichem on the basis of one of the formulas as mentioned in the former's patent granted earlier in 1956. The judgment of the Bombay High Court delivered in 1968 went in favour of Hoechst.³ What is important to note here is that Hoechst

won the case despite the fact that its patent did not specifically mention Haffkine's process. What clinched the issue was that Hoechst's description was open-ended. One of the claims of Hoechst was, in the interpretation of the judge:

Wide enough to cover all methods of eliminating sulphur from thioureas (to manufacture tolbutamide) whether desulphurisation is effected by means of hydrogen peroxide (as specifically mentioned by Haffkine) or by the use of any other substance (phrases within brackets ours) [*The All India Reporter* 1969, p 264].

Strange as it may appear, such widely worded claims were permissible under the act of 1911.

The same patent was also sought to be used for preventing Bengal Chemical and Pharmaceutical Works (BCPW), an indigenous firm, from manufacturing another drug, chlorpropamide. BCPW developed a new process for manufacturing it and obtained a patent in 1956. But in 1961, BCPW received a letter from Hoechst, alleging that the former had infringed upon the latter's patent under which Pfizer had been given a licence to produce it. Denying the allegation, BCPW sought legal action when it continued to receive such threats. Hoechst and Pfizer, on their part, filed a suit in 1962 in the Calcutta High Court against BCPW.⁴ This time the judgment went in favour of the indigenous firm. The judge concluded that BCPW's patent was an independent one, not in any way influenced by Hoechst's patent which, in fact, did not relate to the manufacture of chlorpropamide at all!

The case is quite revealing so far as the development of indigenous technology and the role of patent legislation are concerned. Hoechst's patent did not refer to any specific drug. It was for the broad group of sulphonyl ureas. Forty examples were given, but it was claimed that other compounds could be obtained easily from the general formula and chlorpropamide was one of them. Hoechst, however, failed to establish in the court that chlorpropamide could be or had been produced on the basis of the process described in their patent. Even an expert witness appearing for Hoechst admitted that the information disclosed in the patent was not enough to carry out the experiment. But Hoechst could not give specific directions as to how to proceed. One of the specifications, in fact, was found to be chemically incorrect.⁵ Significantly, out of the 40 examples provided, none referred to chlorpropamide.

One of the objectives behind the patent laws is to induce the inventors to disclose the inventions (in return for the exclusive right of using the invention for a specified period) so that knowledge may be diffused

to facilitate further technological progress. The above-mentioned case illustrates how the TNCs used the Indian patent law existing then to suppress indigenous growth. It is not only that Hoechst's patent contained inadequate and misleading information which prevents and distorts the diffusion of knowledge. The patent was of a general type, supposed to cover a large and unspecified number of products/processes. Thus, other firms could be threatened with legal consequences even when their product was not at all connected with the patent. All the patent disputes are not fought out in a court of law. A mere threat may be enough deterrent in many cases. Hindustan Antibiotics (HAL), a public sector firm, e.g., claimed that it had developed an indigenous process for manufacturing oxytetracycline Hcl. A plant, in fact, was set up and production began in 1961 without any external technical help. In the same year a TNC, viz, Pfizer too started manufacturing the same drug. HAL, however, unlike BCPW decided to suspend production rather than to contest Pfizer, which claimed infringement of their patent rights (HAL, Annual Report, 1961). Significantly enough, in the BCPW case, before the court hearing started, Hoechst approached BCPW in 1968 to settle the dispute outside the court, which however the latter refused (Minutes of the Meeting of the Directors of BCPW, Calcutta, December 5, 1968).

COMPULSORY LICENCE

A non-patentee intending to manufacture a drug is required to obtain a licence from the patentee concerned, if the process of manufacture to be used is covered by the patent. Under the act of 1911, this was the requirement even if the process in question was well known (but even so had been mentioned in the patent as in the case of new drug discussed above) or additional technical data were necessary to implement the process and these had been developed by, or obtained from, other sources. Obviously, a patentee may grant a licence voluntarily to anyone on mutually acceptable terms. Compulsory licence is a licence granted by the controller of patents (or by the patentee as directed by the controller) to a non-patentee to use a patent on payment of royalties to the patentee. The act of 1911 provided for the grant of compulsory licence in case of misuse or abuse of patent rights [*Report of the Patents Enquiry Committee* (1948-50), p 71].

The Patents Enquiry Committee reported in 1950 that the foreign patentees did misuse or abuse their rights, e.g., by importing the patented products rather than manufacturing it here, fixing the prices at high levels, not allowing others to manufacture the product even when it was not itself engaged in manufacture [*Report of the Pat-*

ents Enquiry Committee (1948-50), p 162]. But, as the Committee observed, the provisions regarding compulsory licences were "wholly inadequate to prevent misuse or abuse of patent rights, particularly by foreigners" [*Report of the Patents Enquiry Committee* (1948-50), p 172]. The panel on Fine Chemicals, Drugs and Pharmaceuticals, appointed by the government also reported earlier in 1946 that not a single compulsory licence could be obtained because of the wording of the relevant provisions [*Report of the Panel on Fine Chemicals, Drugs and Pharmaceuticals* 1947, p 15]. For example, under Section 22, a compulsory licence could be claimed if "the demand for a patented article is not being met to an adequate extent and on reasonable terms". As the Patents Enquiry Committee commented, the Section unnecessarily also demanded that it has to be proved that as a result any trade or industry had been 'unfairly prejudiced'. Obviously, in practice it appeared very difficult to establish such a link [*Report of the Patents Enquiry Committee* (1948-50), p 168].

The provisions regarding compulsory licence (Sections 22 and 23) were amended in 1950, following the recommendations made by the Patents Enquiry Committee in its interim report submitted in 1949 [Ayyangar 1959, p 1]. In 1952, an entirely new Section (23CC) dealing specifically with drugs (and food, insecticide, germicide, fungicide, surgical or curative devices) was added [*Patent Office Handbook* 1966, p 32]. Under this section, the controller of patents was empowered to grant a compulsory licence to any applicant at any time unless there are 'good reasons' for refusing. The foreign patentees, however, were still in a position to effectively prevent or delay the use of compulsory licence.

The Haffkine Institute, e.g., applied for a compulsory licence, but the foreign patentee offered to give the licence voluntarily on the basis of royalties to be fixed through negotiations. They demanded an absurdly high rate of royalty of 25 per cent. It took more than four years to reduce it to 10 per cent, which however was still higher than the limit of 5 per cent stipulated by the Reserve Bank of India. By that time the Haffkine Institute decided to abandon the scheme.⁶ Again, another indigenous firm Neo Pharma Industries entered into a technical collaboration agreement with an Italian firm for the technology to manufacture chloramphenicol. A licence was sought from Parke Davis, which held the relevant patent in India. But whereas the subsidiary company in India pointed out that the matter was beyond its jurisdiction, the parent company in the US insisted that Neo Pharma should first discuss with the local company. It took more than two years to decide as to who would negotiate. At last when the negotiations started with the parent company, they

did not formally refuse to grant a licence but simply sat over the proposal. Finally, when a compulsory licence was sought for and was granted, Parke Davis went to the court and obtained a stay order.⁷ In fact, going to the court is a simple device the foreign patentees could employ. Even if ultimately the judgment goes against the patentee, the applicant would normally be prevented from using the compulsory licence during the period of the court case. The longer the time taken to settle a case, the smaller will be the relative benefit to the applicant for compulsory licence, because in any case after the expiry of the patent (normally 16 years) anybody was free to use the patent. The hazards of obtaining a compulsory licence, which include legal battles, perhaps explain why so few applicants for compulsory licence were made under Section 23 CC. Till 1972, i.e., when a new act came into force, there were only five applications for compulsory licence, made by Hindustan Antibiotics (in 1959), Alembic Chemical Works (1963), Dey's Medical Stores (Manufacturing) (1960), Raptakos Brett (1957) and Neo Pharma Industries (1961).⁸ The applications were ultimately withdrawn in the first two cases. Compulsory licence was refused by the Controller of Patents in the third case.⁹ The controller granted compulsory licences in the last two cases.

II

The Patents Act, 1970

The need to change the patent laws was felt immediately after India's independence. Several official committees [e.g., Patent Enquiry Committee (1948-50)] and experts [e.g., Ayyangar 1959] examined the patent system and suggested revisions. The Parliament too debated a number of Patent Bills, e.g., in 1950, 1953, 1965 and 1967. But it was not before the enactment of the Patents Act, 1970 that the patent system could be changed.

An important feature of the new act of 1970 is the special provisions regarding drugs and a few other products. The life of the drug (and food) patents has been reduced from at least 16 years in the previous act to five years from the date of sealing¹⁰ or seven years from the date of filling of complete specifications, whichever is shorter (Sections 45 and 53), i.e., for a maximum period of seven years. For other patents, the duration is 14 years. The new act categorically states that drugs (and food and those manufactured by chemical processes) can now be patented only for a new method or process of manufacture, not for the products as such (Section 5).

The act of 1970 practically eliminated the monopoly status enjoyed by the TNCs till then.

A TNC inventing/discovering a new drug could at best patent the process of manufacturing it, provided it is new. Unlike in the

previous patent regime, it cannot patent all the processes known to it even if these are new. For a particular drug only one method or process—the best known to the applicant—can be patented (Sections 5 and 10).¹¹

Thus the indigenous firms can immediately manufacture the new drugs if it can use an old process or develop a new one not mentioned in the patent. Even when they cannot, the period of the monopoly of the TNCs would be significantly shorter—at the most seven years compared to at least 16 years in the past. Under the provisions of compulsory licensing in the new act, manufacturing by non-patentees can begin even earlier.

Under Section 87 of the Patents Act, 1970, every patent relating to processes for manufacturing drugs (or food or chemical substances) has to be endorsed with the words 'licences of right' after three years of the date of sealing. This implies that anyone is automatically entitled to a licence from the patentee for using the patent on payment of royalties, the maximum rate being fixed at four per cent of the ex-factory sales (Section 88). Even before expiry of three years from the date of sealing, the controller is empowered to grant a compulsory licence (and fix the rate of royalties) if "it is necessary or expedient in the public interest" (Section 97). There is also a special provision in the act of 1970 regarding the use of patents by the government. Any time, a patent may be used for official purposes, including those of public undertakings. The maximum royalty payable for such a use, in case of drugs (and food) has been fixed at 4 per cent of the ex-factory sales (Sections 99 and 100).

It must be pointed out, however, that the actual use of a patent by a non-patentee still remains hazardous. For example, under Section 87, as mentioned above, while the right to obtain a licence automatically accrues after three years from the date of sealing of a patent, it cannot actually be used till the royalties are fixed either mutually or at the intervention of the controller. As before, the patentees can continue to prevent or delay the use of their patents by others by refusing to negotiate and then proceeding to the court in case of any intervening action by the controller. This has in fact happened in some of the applications made to the controller of patents.¹²

The indigenous firms were quick to respond to the favourable provisions in the act of 1970. The complete elimination of product patent brought about significant changes in the pharmaceutical industry in India not at all to the liking of the TNCs. The result is summed up in the words of I A Modi, managing director of Cadila Laboratories, India's third largest pharmaceutical company:

The real turn for us and for the Indian drug industry came in 1970,¹³ when the Indian Patent Act was implemented. Until then we

were prevented by the old British Patent Act from manufacturing a patented product. The government introduced a process patent instead: the industry was allowed to market products with a different process.

With our new-found freedom, Cadila developed its own processes for any product introduced in the world market, launching them successfully in no time at all, at one-tenth the price [Modi 1993].

Glaxo, an TNC introduced abroad an anti-ulcer drug, Ranitidine (Glaxo brand, Zantac) in 1981. By 1985 an Indian company, Ranbaxy put the drug in the Indian market followed by many other Indian firms—Dr Reddy's Laboratories, Lyka, Albert David etc (Dasgupta 1992). Other examples of drugs which were introduced by Indian companies in India within four years are salbutamol (anti-asthmatic), mebendazole (anthelmintic), naproxen (anti-rheumatic), captopril (anti-hypertensive), norfloxacin (antibacterial) [Keayla 1992(a), p 22].

Thus new drugs began to be manufactured in India much earlier compared to the previous regime. Moreover, the competition that followed among the TNCs and the indigenous firms reduced drug prices in India below the international levels. This is revealed in a comparison of the 1991 prices of a sample of drug products in India with those in Pakistan, where the per capita income and wage costs are similar to India's. Prices were lower in India for 21 out of the 23 drugs considered by Keayla (1992(a), pp 24-26). For these 21 drugs, the extent to which the prices in Pakistan were costlier varied between 1.17 times (in the case of Trazodone, an anti-anxiolytic) and 22.15 times (buspirone, also an anti-anxiolytic). The prices of ranitidine mentioned earlier were Rs 29.03 per 10 tablets in India compared to Indian Rs 260.40 in Pakistan (8.97 times costlier). To give a few other examples, the prices of cefadroxil (an antibacterial) were 2.76 times costlier, of piroxicam (an anti-inflammatory) 5.63 times costlier, of atenolol (cardiovascular) 11.55 times costlier, of azitenzole (an anti-histamine) 20.15 times costlier, etc.

The dynamism witnessed among the indigenous firms following the introduction of the Patents Act, 1970 is also indicated in the sharp rise in the exports of drugs and pharmaceuticals in the 1970s and the 1980s. India exports a large number of bulk drugs—ampicillin, chlorpropamide, diazepam, ethambutol, nifedipine, pyrazinamide, trimethoprim, etc. In fact India is now a net exporter of drugs and pharmaceuticals [IDMA 1992]. But for the patent laws in countries like the US, Germany, etc, which recognise product patents, India's exports would have been even higher. These countries do not allow imports of the patented drugs from India. An Indian firm, Sumittra Pharmaceuticals, which is a major exporter of ciprofloxacin (an anti-bacterial) was in

fact pulled up for violation of patent rights by the patent holder (Bayer) when the former promoted the drug in a German trade fair [Kumar 1992]. India exports drugs to these countries after the expiry of the patents. For example exports of Ibuprofen started in a big way after the patent expired in the US in 1985. Similarly exports of ampicillin and amoxycillin trihydrate stepped up following the expiry of patents in 1987 and 1986 respectively [Export Import Bank of India 1991].

III

Revision of Patents Act, 1970: Pressures and the Proposals

In the 1980s the developed countries started taking concrete steps to force India to modify its patent laws. India as a member of GATT (General Agreement on Tariffs and Trade) is bound by its principles and rules. The role of GATT has traditionally been restricted to international trade in goods. It did not extend to intellectual property (patents, copyrights, trademarks, etc) or services. Hence the Patents Act, 1970 in no way violated the GATT principles. In 1986, a new round of trade talks started at Punta del Este in Uruguay. The developed countries proposed and succeeded in including trade related aspects of intellectual property rights (TRIPS) as a part of the Uruguay Round of Multilateral Trade Negotiations. It turned out later that the developing countries wanted that norms and standards should be set for the protection of intellectual property and GATT should monitor and enforce them.¹⁴

In December, 1991 the then director general of GATT, Arthur Dunkel presented a draft agreement which he considered to be the outcome of the negotiations. It has been pointed out however that the Dunkel Draft (DD) ignores the issues raised by the developing countries in the negotiations. Whereas in an earlier draft of December, 1990, both the developing and developed country viewpoints were mentioned side by side, DD is now silent about the former [Keayla, 1992(b), p 1]. In fact the provisions on TRIPS in DD closely resemble the submissions made by the American, Japanese and European business communities (the Intellectual Property Committee of the US, Keidanren of Japan and UNICE of Europe) in 1988 to the negotiating committee [Keayla n.d., pp 28-29]. The developed countries (US, Japan and the European Community) have been fighting among themselves on some issues, e.g. farm subsidies. But they unanimously support Dunkel on TRIPS. The developed countries have attached tremendous importance to TRIPS in the Uruguay Round of talks. The United States Trade Representative, had categorically stated that the success in TRIPS nego-

tations is essential to the successful completion of the Round [Hills 1989].

DD has not yet been implemented. The Uruguay trade talks are finally expected to be over by December 1993. Countries like India who initially opposed DD have been subjected to different kinds of pressures. The US, in particular, has been threatening India that she will take retaliatory action unless India revises her patent laws.

SPECIAL 301 OF 1988 US TRADE ACT

Under the Special 301 intellectual property provisions of the Omnibus Trade and Competitiveness Act of 1988, the US government is empowered to take retaliatory action against any country which deny adequate and effective intellectual property protection. Initially investigations and negotiations are started. Depending on the degree of intellectual property protection and the level of negotiations, countries are included in the 'Watch List' or the 'Priority Watch List'. If the countries do not take the necessary steps to the satisfaction of the US, then they are designated as 'Priority Foreign Countries' as a warning and as a prelude to trade sanctions [USIS 1990].

India was initially put in the 'Priority Watch List' in May 1989 and has been classified as a 'Priority Foreign Country' since April 1991 [USIS 1990; USIS 1993; *The Economic Times* 1991].

In April, 1992 following an investigation, the US president suspended the duty free benefits under Generalized System of Preferences (GSP) to imports of pharmaceutical and chemical products from India on the ground that India has failed to provide effective protection to American intellectual property. Simultaneously a senior trade official warned that stronger action will be taken unless proper patent protection is provided [Shirali 1992; Sankaran 1992]. The Pharmaceutical Manufacturers' Association of the US has been putting a lot of pressure on the US government to take stronger steps against India [*The Hindustan Times* 1992; *Business Standard* 1992]. The impact of the Patents Act, 1970 on the US drug TNCs, in fact has been a major worry for the US. The US National Trade Estimates Report of Foreign Trade Barriers 1991,¹⁵ e.g., states that "India's patent protection is weak and has especially adverse effect on the US pharmaceutical and chemical firms... Many US-invented drugs are widely reproduced since patent protection is not available." The United States Trade Representative (USTR) too alleged that "as a result of total lack of protection for certain classes of investigations, particularly pharmaceuticals, many US patented products are widely pirated" [*The Economic Times* 1991].

In April, 1993 the US government set up an inter agency task force to explore further

actions against India. But further bilateral action may not be necessary. The pressures exerted by US ultimately may have worked. After a recent round of discussions with US government officials, the commerce secretary of the government of India has disclosed that India would accept the Dunkel Draft¹⁶ [Ganesan 1993].

IMPLICATIONS OF DUNKEL DRAFT

DD, when implemented, will bring about drastic changes, among others, in the pharmaceutical industry in India. The gain from the Patents Act, 1970 will be negated. The situation in fact will be worse than that under the 1911 act. DD takes away the right of the countries to have their own patent laws. Article 1 states categorically that they will have to implement the provisions of the agreement in their own legal system and practice. DD will force India to change the Patents Act, 1970 beyond recognition. Dhar and Rao (1992) and Keayla (1992b) have examined the different aspects of DD and how the interests of the developing countries will be adversely affected. In the light of our previous discussion of the 1911 act and the 1970 act, we reiterate a few points.

The most important features of DD so far as the drug patents are concerned relate to (a) what can be patented and (b) the nature of the patents rights. India will now have to recognise and grant product patents (Article 27 of the DD). And the patent holder will have not only the sole right to produce but also to import (Article 28). Thus when a foreign firm introduces a new drug abroad and gets a patent for it, indigenous firms will be prevented from manufacturing (for domestic market or for exports) or importing it for 20 years (i.e., during the life of the patents as proposed in DD) even if they can develop their own processes of manufacturing it. This is in sharp contrast to the present situation. It is in fact worse than what was the situation under the previous act of 1911. As we have pointed out earlier, the non-patentees at least had the right to manufacture a new drug provided it could use/develop a process not mentioned in the patent.

The implications of DD will be (a) higher consumer prices of drugs, (b) larger foreign exchange outflow due to larger imports and lesser exports, and (c) smaller employment generation due to lower domestic production.

With no one to compete against them, the TNCs can afford to charge higher prices. Official price control measures are unlikely to be effective. The TNCs may not be interested in manufacturing the drugs in India at all. They may also refuse to sell (export) to India unless their terms are met. Such threats will in all likelihood force the government to yield particularly if the drugs are of life-saving nature. Under the 1970 act, a patent can be revoked if "the demand for

the patented article is not being met to an adequate extent or on reasonable terms from manufacture in India..." [Keayla n.d., p. 8]. No such safeguards have been provided in DD. In DD, the failure to provide the product on reasonable terms is not cited as a justification for punitive action.

The decision of the TNCs about the extent of manufacturing, imports and exports from a particular country, in fact depends on their global strategy of operations. It has been found that in countries like India the TNCs in general prefer to import goods rather than to produce them locally. And when they decide to manufacture, they prefer to do so for the domestic market rather than for exports.

As a recent survey on India's exports of drugs and pharmaceuticals by Export and Import Bank of India (1991, p. 27) has reported, a number of TNCs do not allow their units in India to export to the major overseas markets of the US, western Europe, etc. The reason is that they do not want any competition from India in their own domestic market. Hence despite having a global network of offices, the TNCs export much less from India compared to the indigenous sector. In 1988-89, the TNCs accounted for only 20 per cent of India's total drugs and pharmaceutical exports. If DD is implemented then the indigenous sector will not be permitted to manufacture and export the patented drugs. And the TNCs are unlikely to fill up the gap. Consequently India's drug exports will suffer.

The preference of the TNCs for imports has also been demonstrated in several studies. We mentioned earlier about the findings of an official committee that under the 1911 act, the TNCs had a tendency not to operate the patents in India and instead rely on imports. Under the 1970 act, thanks to the absence of product patent, it was not necessary to wait for the TNCs; domestic production could be started by the indigenous sector. But under DD, with the indigenous sector being prevented from manufacturing and the right of the patentees to import explicitly recognised, the TNCs might exercise their option. Depending on their global strategy, the TNCs may resort to import rather than to manufacture the drugs here. In one of the submissions made to a negotiating committee in the Uruguay Round, India demanded that working of a patent in the host country must be a fundamental obligation of the patent holder. And if they do not comply, then explicit provisions must be there for revocation of the patent [Ganesan 1989]. Such demands were not incorporated in the Dunkel Draft. India has now diluted her stand. During her recent trade talks with the US, India has suggested that in case the foreign patentees do not manufacture in India, there should at least be provisions for grant of compulsory li-

cences to others. But the US has categorically rejected such amendments to the DD [Ganesan 1993]. Even if India's demand for compulsory licensing is eventually accepted in the multilateral forum, it is unlikely to make a significant difference. India's experience, particularly under the 1911 act suggests that it is effectively difficult for the non-patentees to use the provisions of compulsory licensing and start production.

Thus India will be a net loser. After overcoming tremendous resistance, it introduced the Patents Act, 1970. India's acceptance of the Dunkel Draft will result in a drastic change in its patent laws. India will be deprived of the gains of the act of 1970. The amendments proposed by Dunkel will in fact take India back to a situation worse than that under the previous act enacted during the colonial period in 1911.

Notes

[The paper was written in June, 1993. Section I of the paper relies heavily on Sections 3.3 and 3.4 of author's PhD thesis ('Indigenous Firms in Relation to the Transnational Corporations in the Drug Industry in India', Jawaharlal Nehru University, New Delhi, 1984) a part of which was published in *Rudical Journal of Health*, December, 1987. The author thanks B K Keayla and Biswajit Dhar, convenor and joint convenor—Core Group respectively of the National Working Group on Patent Laws, New Delhi, for discussions.]

- 1 Reproduced in *Patent Office Hand Book*, 1966.
- 2 See the evidences of K A Hamied of Chemical, Industrial and Pharmaceutical Laboratories (CIPLA), *Joint Committee on the Patents Bill, 1965: Evidence*, Vol 1, p 154 and of S G Somani of All India Manufacturers Association, *Joint Committee on the Patents Bill, 1967: Evidence*, Vol 1, p 294.
- 3 For the text of the judgment, which also provides the background of the case, see, *The All India Reporter* 1969, Vol 56, pp 258-73.
- 4 Information on this patent case has been obtained from the judgment of the Calcutta High Court (Suit No 1124 of 1962); the plaint; the written statement submitted by BCPW (all available at the Calcutta High Court) and the BCPW assistant secretary's note placed at the BCPW board of directors' meeting held on July 27, 1970.
- 5 Hoechst's patent mentions alkylation with primary amides which is chemically impossible. See, *ibid*.
- 6 Evidence of C V Delliwala of the Haffkine Institute, *Joint Committee on the Patents Bill, 1967: Evidence*, Vol 1, pp 451-52.
- 7 Evidence of N I Mathias and A C Mitra of Neo Pharma Industries, *Joint Committee on the Patents Bill, 1965: Evidence*, Vol II, pp 478-88, 493-94.
- 8 Information obtained from the Patent Office, Calcutta. Apparently, the applica-

tion by the Haffkine Institute, referred to earlier in the text, was made before Section 23 CC was added in 1952.

- 9 According to Rule 32B (inserted in 1953) of the Indian Patent and Design Rules, 1933, the controller shall refuse the application, if "the controller is not satisfied that a *prima facie* case has been made out for the making of an Order" (*Patent Office Hand Book* 1966, pp 71-72).
- 10 A patent is sealed after it is granted.
- 11 For the discussion of the important provisions regarding drugs in the act of 1970 *vis-a-vis* the act of 1911, see SK Borkar, 'Patent Act, 1970 and Its Effect on Drug Industry in the Country' in IDMA, 1974.
- 12 For example in the case of the application made in March 1976 by Catalyst and Chemical India (West Asia), the controller fixed the rate of royalty tentatively as per Section 88(4). The patentee (ICI), however, went to the court and by the time the case came up for final hearing (July 1977) the patent was about to expire (in August 1977) ('Applications filed for Licences of Right under Section 88(2) and 88(4) of the Patents Act, 1970' in *Journal of Patent Office Technical Society*, Vol 16, 1982, pp 80-81.
- 13 Modi mentioned 1970 presumably to refer to the Patents Act, 1970. Actually the act was implemented in 1972.
- 14 For the background of the Uruguay round of trade talks, see Shukla 1992 and Dhar and Rao 1992.
- 15 Reproduced in *The Economic Times*, Calcutta, May 5, 1991.
- 16 The only modification being insisted upon by the government of India is the provision for compulsory licensing in case the patentees do not manufacture the products in India.

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US versus UN

Pran Chopra

Reforming the United Nations: The Challenge of Relevance by K P Saksena; Sage Publications India, New Delhi, 1993; pp 270, Rs 265.

THERE have been times in the past—are they over now?—when the US used to consider it to be an unfriendly act for any country to vote against the American position in the United Nations. Long lists used to be compiled against a country, totting up all the occasions, some quite trivial, when it did not vote on the same side as the US, and its sin was of course all the greater if it voted on the same side as the Soviet Union. This was one of the grudges which constituted American policy towards India in the days of the cold war.

Now, in a comprehensively researched book, the author draws attention to a large number of occasions when the US voted against the entire membership of the world body, and on issues which deeply affected the role, the reach and indeed the very existence of the UN. Not only voted against the UN but held it to ransom by refusing to pay its annual dues to the world body, which constituted as much as a quarter of the latter's total resources, and also amounted to more than half of the arrears of payment due from all the other UN members put together, including the poorest.

The reason it gave always used to be that the UN had grown inefficient and wasteful in the use of its resources, was overstaffed and busy with things which were none of its business. But as the author shows, the purpose was to turn the world away from the principle of internationalism which the UN embodies and upon which it is founded, towards overlordship by a cosier presidium, the G-7 or G-5, of which the US has been an increasingly dominant member.

The device it used was slicing down the staff and thereby also the functions of the UN, and to control budgetary allocations in such a way that those programmes would be hurt the most which most displeased the US because of their social, political, or economic outlook.

This practice drove even the UN secretary-general to cry out, in his report to the General Assembly in 1987, "prolongation of austerity measures" which were sought to be imposed by withholding the annual contributions to the budget "including the freeze of the staff recruitment and restrictions on meetings has an adverse effect on programme implementation and on the Secretariat staff... The financial crisis which made necessary the austerity measures and encouraged the reforms that are now being implemented

stemmed from more profound causes than dissatisfaction with the administrative efficiency of the UN. Deep-seated political differences gave rise to a turning away in some quarters from multilateralism and to rejection by some member states of adopted programmes."

The secretary-general did not name the US but the voting record is more candid in showing who was turning away and from what. At a meeting of the UN and the Host Relations Committee on September 19, 1983, a US official, ambassador Charles Lichtenstein, left little to the imagination when, as quoted in the book, he tauntingly invited the UN to remove itself from the US soil and sail off "into the sunset" to a fond farewell by the US. This was at the very dawn of the Reagan-Bush period in American foreign policy, and what the dawn promised was to be spelt out soon afterwards: the very next year the premier think-tank of Reagan-Bush age, The Heritage Foundation, published a study with the suggestive title *A World without UN*.

To give only some examples from the voting record which the book has analysed painstakingly: In 1987, the General Assembly took a vote on the secretary-general's proposal, based on consensus, for expanding a committee which is crucial for the framing of UN's programmes, the Committee on Programmes and Co-ordination. The vote was "152 for, one against (the US) and no abstentions". In 1988, the General Assembly voted on a consensus resolution on the next phase of the international development strategy. "The voting was 151 for, one against (the US) and no abstentions." At the same session "the Group of 77... called for international co-operation for the eradication of poverty... The US again decided to cast the lone negative vote." Another resolution by the Group of 77, much revised to meet the objections of the G-7 countries and now asking for no more than consultations (on the severe debt problem of the aid receiving countries) "received 150 (votes) for, one against (the US) and one abstention (Japan)". In the vote on a resolution calling for a special UN session on "the overall issues relating to international economic co-operation... the voting was 123 for, one against (the US), with no abstentions".

So much for America's voting record. More disturbing is it that in spite of being so heavily outvoted in the General Assembly,

and using the financial stranglehold it had established first by withholding its contributions and then doling out bits when UN gasped for breath, the US still managed, though in this it was generously helped by the other members of the G-7, to kill by budgetary devices whatever liberal intentions that might still struggle in the breasts of the UN programme-makers. It is these devices and their effect which the UN secretary-general deplored in the quotations given above from his reports.

The effect is more elaborately described in the book: "What was projected in the name of improving efficiency was, indeed, a well planned and concerted effort to jettison the whole basis of the functioning of the multilateral system of co-operation evolved during the 1960s and 1970s... the side holding the real power, including the purse strings, is gaining more ground in this tug of war than that holding the voting power... Several UN programmes under the mid-term plan (1984-89, extended till 1991) designed to assist development in the developing countries have either been abandoned or postponed for lack of funds "while funds have not been lacking for certain 'extra-budgetary resources' in which the contributor has a greater say.

Unfortunately the book does not discuss, let alone explain, what used to mystify this reviewer at the time of these votes, and still does after reading the book: As proved by these votes, virtually all members of the General Assembly were opposed to the US strategy of bending the UN to its own policies by first crippling its finances, and yet they did not put any counter pressure on the US by invoking Article 19, which provides that no member may retain its voting rights in the General Assembly if it is "in arrears in the payment of its financial contributions" and if the "amount of its arrears equals or exceeds" the contributions due for two years. Similarly why did not the General Assembly use Article 17 "The expenses of the organisations shall be borne by the members as apportioned by the General Assembly". The majorities required by the Charter for such decisions were clearly available.

This omission by the General Assembly being serious enough, the author's omission in discussing it leads me to wonder whether this is because he has taken a mistaken view of, first, the powers available to the General Assembly at least under Articles 17 and 19 and, second, its freedom, in the given political circumstances, to use such powers as it has. The Assembly did have considerable salience during the first decade of the UN because the US, which had a strong backing among the countries which were members at that time, wanted to use the Assembly as a forum from which it

could by-pass the lock of the veto which the Soviet Union had imposed on the Security Council. Measures like the "Uniting for Peace Resolution", which was used for organising the UN action in Korea, were a part of this strategy.

Subsequently the pliability of the General Assembly decreased when more and more third world members joined it and most of them became a part of the independent minded Non-aligned Movement. But even then the General Assembly did not use its budget enforcing powers to loosen itself out of the financial noose which the US had got around its neck.

In political matters of course the General Assembly could not, given the terms of the Charter, gain any leeway against the super powers by the increased infusion of the NAM spirit in the ranks of the Assembly. Nor, therefore could the UN, contrary to the author's belief, become "no longer subject to manipulation". Even under Article 10 of the Charter, which the author cites in support of his belief, the General Assembly can only "discuss" and "make recommendations", and under Article 12 it may not even do that with regard to any matter which the Security Council is seized of, and it is the Council alone whose "decisions" the UN members are obliged to "accept and carry out".

That being so, the author should not have found it to be "intriguing" that "the major target of reform and reorganisation has not been the political processes of the UN, but its administrative and financial functioning". Political processes had already been put in the safe custody of the Security Council, and by the time the spurt of "reform and reorganisation" began to gather momentum in the late 1980s, the Security Council itself had been placed in the safe custody of the US and the other major western powers, thanks to the collapse of the Soviet Union. "Reform" was needed only with regard to such matters as were more firmly within the jurisdiction of the General Assembly, which was continuing to be bolshie even without the Soviet Union.

It is the changed power equation following the collapse of the Soviet Union which must be held to explain what the author has greeted as the "rediscovery" of the UN as an organisation pivotal to the resolution of international conflicts. There was indeed a brief period when, with Gorbachev still effective in creating a new mind-set in Moscow, the two superpowers did appear to be genuinely and jointly trying to rediscover the original peace-keeping role of the UN.

But something quite different began to happen after the collapse of the Soviet Union. Russia, as the successor to the Soviet Union, became increasingly a party to the American world-view and to the role assigned to the UN in that world-view. Whether Russia became so out of conviction or a growing sense of powerlessness is besides the point,

because the point here is only that far from rediscovering what the author calls a pivotal role for the UN, the US and its western colleagues mainly discovered that with the Soviet Union gone, the UN, when used through their control of the Security Council, could be a convenient tool, and they proceeded to use it as such.

But the blame for this misperception on the part of the author lies less upon him than upon the very fast pace of events during the concluding years of the period covered by the book. He has been able to take note of some of them, but rather in the form of footnotes though they are written into the text. They obviously fell upon him too suddenly, as they did upon everyone else, for him to incorporate their meaning fully into the framework which he seems to have had in mind when he planned his analysis of the UN. Therefore he could only add bits and pieces to the framework as each major new event knocked upon his door, and it is not surprising that they do not hang together.

Thus on page 177 he maintains that "the revitalisation of the UN peace and security system have been made possible by the ending of the antagonism between the US and Russia", and as proof of the revitalisation cites "the remarkable development when, for the first time in the history of the UN, enforcement measures were recommended to seek the vacation of the military occupation of Kuwait by Iraq".

But only two pages later he is obliged to recognise the reality that this was not

revitalisation of the UN but successful harnessing of the UN to the national purposes of a member country, even though in this case the purpose was a justifiable one. And so the author observes "the US acted as a policeman after obtaining a rump sanction from the Council and carried out its task without bothering about the framework or the political processes of the UN". Twelve pages further down he finds the task itself to be one "whose legitimacy under the Charter is questionable, to say the least... Chapter VII provides for collective enforcement only to the extent of thwarting aggression (and) the restoration of the *status quo ante*. Its provisions are not meant to impose or enforce political settlement, nor to undertake retaliatory or punitive measures... Never before have the objectivity and non-partisan role of UN personnel been questioned as in the case of the missions in Iraq."

Because of the shifts in perspective created by the sudden bursts of events, the author has not been able to do full justice to the all important task of discovering how the UN system should be reformed so that it may fulfill in future its truly intended purpose of maintaining international peace with a just international order. Some suggestions have been made. But they lack the cogency of his analysis of the past. Therefore one concludes its review by expressing the hope that he will turn his undoubted competence to this task not too far hence and as soon as the pace of events permits a more steady contemplation of the scene.

Gender and Kinship in Sri Lanka

Sujata Patel

Gender Transformation, Power and Resistance among Women in Sri Lanka: The Fish Don't Talk about the Water by Carla Risseuw; Manohar, Delhi 1991; pp 399.

THE growth of gender studies with its interest in covert forms of domination and subtle means of institutionalising asymmetrical relationships between genders has made a considerable dent and change in the theorisations regarding power. It is now recognised that merely an analysis of the state and its apparatus is not going to yield an understanding of the nature of power, its social base or its dynamics. For, power pervades all relationships and if it manifests itself consciously, it also remains present by being absent and yet in spite of this absence it remains connected to formal structures that define authority in every society. These insights have led theorists to focus their analysis on culture and language; for both the conscious and unconscious aspects of power dynamics can be understood by interrogating these practices and structures. Such developments have introduced new theoretical and methodological protocols needed to evaluate these processes, leading in turn to opening up of existing areas of knowledge to

new interpretations and thereby reconstituting the domains of various social sciences.

One of the domains that have got reinterpreted as a result of the growth of gender studies has been the anthropological inquiry regarding kinship systems. For some time now, anthropologists have recognised the fact that kinship systems do not merely represent a structure of networks of a society/community but are in fact ideologically affirmed entitlements and obligations that accrue to defined individuals in a society. Kinship defines the rights over both material and non-material capital/property available to a group or a community.

Carla Risseuw's book is one of the few books that argues this position taking evidence from Sri Lanka. She starts with a description of the nature of marriage and kinship rules in south Sri Lanka at the time of the advent of the colonial powers. She argues that the colonial authorities reorganised the received system regarding marriage and inheritance as it did not fit

in with the 'colonial male gaze'. The British found it difficult to accept the fact that marriage had little or no relationship with state and religious authority. They also found it difficult to accept that there were two kinds of marriage systems in Sri Lanka. In one of these there was transfer of bride to the husband's house ('diga') and in the second, the bridegroom is transferred into the wife's family. If in the first, descent and inheritance passed from father to son, in the second, it passed from mother to daughters and sons. Both systems were in use and could be contracted simultaneously. In addition there was polygamy and polyandry. In all these forms the critical issue was the fact male parentage was not the dominant criterion for defining descent and inheritance. Risseuw believes that plurality of marriage forms and relatively simple divorce laws made for equality of sexes in Sri Lankan society.

Colonialism brought in changes regarding the nature of land ownership and made possible transfer and sale of land. These changes came about as a result of the changing needs of colonial exploiters who wished to introduce plantation economy in the island. This demand made the British evolve a uniform policy of land sale and transfer, thereby changing not only marriage patterns but also forms of bilateral inheritance through which both males and females inherited wealth. The colonial state worked towards an acceptance of a monogamous life-long union sanctified by the state and/or church preferring virilocal transfer and patrilineal inheritance. The implications of this legislation was that legally and economically women became dependent on males. This trend was accentuated with the changes in divorce laws wherein a woman's right to divorce was limited.

Risseuw then takes up the exploration of the impact of this ideology on visibility of women as workers. The policies and programmes of the colonial state had, as she had earlier argued, negative impact on women's inheritance rights. Thus not only were women alienated from land but they even became marginalised in the new production system that was introduced by the colonial authorities. Men dominated paid wage labour and women were relegated to economic activities that did not have 'economic value'. This process was reflected in the official discourse that attempted to image Sri Lankan society. The census and other official statistics bore little or no reference to women's work because women's economic activities were not recognised as work. This process of transformation and of reconceptualisation is examined in detail through historical records. A large number of scholars have talked about invisibility of women in statistics but it is rare to find a historical analysis of such a process.

This book is, however, not restricted to a historical analysis of gender transformation. It deals with theories of power specially those that attempt a cultural appraisal of its dynamics, its unconscious play and its conscious misrecognition. It also evaluates the processes that have led one group of women in south coastal Sri Lanka to organise and build a resistance to received colonial discourse on women. In fact the historical analysis was attempted because of Risseuw's contemporary concern with the organisation and resistance of women. Her questions are: if women were relatively powerful in an earlier formation, why did "the dimming of the female presence" occur during the colonial period? More specifically, why was there no conflict when such a 'dimming' occurred?

A significant portion of this book tries to paraphrase Pierre Bourdieu's theories regarding power for Risseuw is not only interested to know why did the conflict not take place, but also why did women accept or acquiesce to processes that affirmed greater inequalities between them and the males.

Bourdieu's theory of power and the concepts he builds: habitus, doxa, orthodoxy and heterodoxy all need an anthropological elucidation, for the latter has tools to map out the symbolic structures and interpret its various connotations and delineate the codes that define power in a given society.

The author recognises that such an analysis needs detailed renderings of the map of both the conscious and unconscious to understand power and the interventions regarding power because both are situated and are signed by the entire network of social relationships. Therefore it is very surprising to find that the book makes no attempt at such an analysis. Why?

Is it because power which is embedded in history and culturally defined by a spatial spread over large areas of a region cannot be analysed only by studying one village? This is what Risseuw does. In a text of 355 pages, her field work data constitutes about 50 pages. In this section she gives us some information regarding the village, the number of households and the division of these households in terms of three categories—rich people, ordinary people and poor people. Then she goes on to delineate changes between groups. The evidence for these changes is culled out of three quotations. Then the discourse on the rich and poor are delineated. We are later introduced to class and then gender discourses after a description of the women in the coin industry.

The author has obviously made enormous efforts in collating this information. But for various reasons, explained below, this information and analysis does not seem to make sense. It seems, there is no effort to ask why this information is being collected and how it is to be ordered. Risseuw suggests that Bourdieu's theory is being used be-

cause of its operational implications. Unfortunately her own work very rarely operationalises her questions and therefore her analysis becomes difficult to evaluate.

Part of the problem stems from her refusal to use the protocols that anthropology and sociology have developed to understand cultures. Not only does she refuse to delineate culture in terms of its history and as it is rooted within certain regional boundaries she ignores all other processes that define power in society. The concepts of class and caste are lost in her arguments. There is some oblique reference to caste and hierarchy but neither are studied. Mention is made of class as a 'discourse' but no effort is made to understand it in its material context. Most surprisingly for an author who suggests that 'kinship is a way of talking about property', no effort is made to show how kinship in the village intervenes in the process of determining property relations. Even information regarding population, sex and age differentiation is not given and no effort is made to give a reader any idea of how class, caste and gender as well as any other forms of hierarchy are at work in this area.

It is completely incomprehensible that an author who devotes time and effort to the exploration of kinship and its power implications historically makes no effort to examine cultural roots and social grounding of gender in her study. It also seems incomprehensible that an author who suggests that we have to look outside formal structures to understand power dynamics makes no effort to connect up festivals, ceremonies as well as daily lives of the women whom she is studying with discourses that she has attempted to examine. And it is also surprising that an author who talks of power makes no effort to look at organisations that execute power, both bureaucratic and non-bureaucratic, and how these are linked to the work process and gender subordination in the village.

There is no doubt that the book raises the right questions. Its failure to answer them may be because the author tries to command many areas of knowledge each of which is grounded in differing theories and methodologies and adequate sensitivity is not accorded to these differences. Thus the village level study uses statements of individuals recorded during field work, the authors' own observations, statements culled out of secondary sources and historical evidences extracted from state records simultaneously. That all of these have differing epistemic values is not recognised and that a certain caution is to be maintained when these are logically connected is not understood.

The book should have been limited to the first part. In the second part the author's own judgments intrude too often. May be the immediacy of the moment, that of organising the women makes the author lose her detachment. This is unfortunate for the questions that are framed are of importance.

Rhetoric against Age of Consent

Resisting Colonial Reason and Death of a Child-Wife

Tanika Sarkar

The historian cannot afford to view the colonial past as an unproblematic retrospect where all power was on one side and all protest on the other. Partisanship has to take into account a multi-faceted nationalism, all aspects of which were complicit with power and domination even when they critiqued western knowledge and challenged colonial power.

This article contends that colonial structures of power compromised with—indeed, learnt much from—indigenous patriarchy and upper caste norms and practices which, in certain areas of life, retained considerable hegemony. Legislative activity on Hindu marriage issues in the last few decades of the century forms the discursive field for this exercise.

I

AT the risk of provoking startled disbelief, I propose to place constructions of Hindu conjugality at the very heart of the formative moment for militant nationalism in Bengal.¹ Historians have adequately noted the centrality of debates around colonial laws on women and marriage in the discourse of liberal reformers. No attempt, however, has been made so far to locate these themes within early Hindu nationalism.

Three interlocking themes will be taken up and elaborated simultaneously. In the last few decades of the 19th century, a fairly distinct political formation had emerged that I shall clumsily designate as revivalist-nationalist. It was a mixed group of newspaper proprietors, orthodox urban estate holders of considerable civic importance within Calcutta and pundits as well as modern intellectuals whom they patronised. They used an explicitly nationalist rhetoric against any form of colonial intervention within the Hindu domestic sphere which marked them off from the broader category of revivalist thinkers who would not necessarily oppose reformism in the name of resisting colonial knowledge. At the same time, their commitment to an unreformed Hindu way of life separated them from liberal nationalists of the Indian Association or Indian National Congress variety. Needless to say, these groups were not irrevocably distinct or mutually exclusive. Despite considerable shifts and overlaps, however, we do identify a distinctive political formation of nationalists who contributed to emerging nationalism a highly militant agitational rhetoric and mobilising techniques built around the defence of Hindu patriarchy.

The second related theme would explore as to why they chose to tie their nationalism to issues of conjugality which they defined as a system of non-consensual, indissoluble, infant marriage. And, finally, we need to dwell upon the arguments they fabricated. We find that the Age of Consent issue

forced a decisive break in their discourse. It made it imperative for them to shift to an entirely different terrain of arguments and images, moving from the realm of reason and pleasure to that of discipline and pain. The entire exercise, I hope, will widen the context of early nationalist agitations and give them an unfamiliar genealogy.

A few words are necessary to explain why, in the present juncture of cultural studies on colonial India, it is important to retrieve this specific history of revivalist-nationalism, and to work with a concept of nationalism that incorporates this history. Edward Said's *Orientalism* has fathered a received wisdom on colonial studies that has proved to be as narrow and frozen in its scope as it has been powerful in its impact. It proceeds from a conviction in the totalising nature of a western power knowledge that gives to the entire Orient a single image with absolute efficacy. Writings of the Subaltern Studies pundits and of a group of feminists, largely located in the first world academia, have come to identify the structures of colonial knowledge as the originary moment for all possible kinds of power and disciplinary formations, since, going by Said, *Orientalism* alone reserves for itself the whole range of hegemonistic capabilities. This unproblematic and entirely non-historicised 'transfer of power' to structures of colonial knowledge has three major consequences; it constructs a necessarily monolithic, non-stratified colonised subject who is, moreover, entirely powerless and entirely without an effective and operative history of his/her own. The only history that s/he is capable of generating is necessarily a derivative one. As a result, the colonised subject is absolved of all complicity and culpability in the makings of the structures of exploitation in the last two hundred years of our history. The only culpability lies in the surrender to colonial knowledge. As a result, the lone political agenda for a historiography of this period shrinks to the contestation of colonial knowledge since all power supposedly flows from

this single source. Each and every kind of contestation, by the same token, is taken to be equally valid. Today, with a triumphalist growth of aggressively communal and/or fundamentalistic identity-politics in our country, such a position comes close to indigenism and acquires a near Fascist potential in its authoritarian insistence on the purity of indigenous epistemological and autological conditions.

It has weird implications for the feminist agenda as well. The assumption that colonialism had wiped out all past histories of patriarchal domination, replacing them neatly and exclusively with western forms of gender relations, has naturally led to an identification of patriarchy in modern India with the project of liberal reform alone. While liberalism is made to stand in for the only vehicle of patriarchal ideology since it is complicit with western knowledge, its opponents—the revivalists, the orthodoxy—are vested with a rebellious, even emancipatory agenda, since they refused colonisation of the domestic ideology. And since colonised knowledge is regarded as the exclusive source of all power, anything that contests it is supposed to have an emancipatory possibility for the women. By easy degrees, then, we reach the position that while opposition to widow immolation was complicit with colonial silencing of non-colonised voices and, consequently, was an exercise of power, the practice of widow immolation itself was a contestatory act outside the realm of power relations since it was not sanctioned by colonisation. In a country, where people will still gather in lakhs to watch and celebrate the burning of a teen-aged girl as sati, such cultural studies are heavy with grim political implications.

We will try to contend that colonial structures of power compromised with, indeed learnt much from indigenous patriarchy and upper caste norms and practices which, in certain areas of life, retained considerable hegemony. This opens up a new context against which we may reevaluate liberal reform. Above all, we need to remember

that other sources of hegemony, far from becoming extinct, were reactivated under colonialism and opposed the liberal rationalist agenda with considerable vigour and success. The historian cannot afford to view the colonial past as an unproblematic retrospect where all power was on one side and all protest on the other. Partisanship has to take into account a multi-faceted nationalism (and not simply its liberal variant), all aspects of which were complicit with power and domination even when they critiqued western knowledge and challenged colonial power.

II

A summary of the most controversial legislative activity on Hindu marriage issues in the last few decades of the century would help to map out our discursive field. The Native Marriage Act III of 1872 was, for its times, an extremely radical package which prohibited polygamy, legalised divorce and laid down a fairly high minimum age of marriage. It also ruled out caste or religious barriers to marriage. Predictably, the proposed bill raised a storm of controversy. Its jurisdiction was eventually narrowed down to people who would declare themselves to be not Hindus, not Christians, and not Jains, Buddhists or Sikhs. In short, its scope came to cover the Brahmins alone, whose initiative had led to its inception in the first place.²

Furious debates around the bill had opened up and problematised crucial areas of Hindu conjugality—in particular the system of non-consensual, indissoluble infant marriage whose ties were considered to remain binding for women even after the death of their husbands. The polemic hardened in 1887 when Rukma Bai, an educated girl from the lowly carpenter caste, refused to live with her uneducated, consumptive husband, claiming that since the marriage was contracted in her infancy it could be repudiated by her decision as an adult. She was threatened with imprisonment under Act XV of 1877 for non-restitution of conjugal rights. The threat was removed only after considerable reformist agitation and the personal intervention of Victoria.³ The issue foregrounded very forcefully the problems of consent and indissolubility within Hindu marriage.⁴ In 1891 the Parsi reformer Malabari's campaign bore fruit in The Criminal Law Amendment Act 10 which revised Section 375 of the Penal Code of 1860, and raised the minimum age of consent for married and unmarried girls from 10 to 12.⁵ Under the earlier Penal Code regulation a husband could legally cohabit with a wife who was 10 years old. The revivalist Hindu intelligentsia of Bengal, now claimed that the new act violated a fundamental ritual observance in the life cycle of the Hindu householder—that is, the 'garbhadhan' ceremony, or the obligatory cohabitation between husband and wife which should take place immediately after

the wife reaches her puberty. Since puberty was quite likely to occur before she was 12 in the hot climate of Bengal, the new legislation meant that the ritual would no longer remain compulsory. If the wife reaches puberty before attaining the age of consent, then garbhadhan could not be performed. This, in turn, implied that the 'pinda' or ancestral offerings, served up by the sons of such marriages, would become impure and that generations of ancestors would be starved of it. The argument provided the central ground for a highly organised mass campaign in Bengal. The first open mass-level anti-government protest in Calcutta and the official prosecution of a leading newspaper were its direct consequences.⁶

The summary might be taken to suggest, Cambridge School fashion,⁷ that nationalist initiative was actually a mere reflex action, following mechanically upon the legal initiatives of the colonial state. Far from being so, however, not only was colonial initiative itself generally a belated and forced surrender to Indian reformist pressure but Hindu revivalist reaction against both was ultimately constituted by a new political compulsion. It was coterminous with a recently-acquired notion of the colonised self that grew out of the 1857 uprising, post-Mutiny reprisals, Lyttonian discriminatory policies in the 1870s and the Ilbert Bill racist agitations in the 1880s. These experiences collectively and cumulatively modified and cast into agonising doubt the earlier choice of loyalism that the Bengali intelligentsia had made fairly unambiguously in 1857. Our understanding of responses to colonial legislation can make only very limited and distorted sense unless they are located within this larger context.

Whereas early 19th century male liberal reformers had been deeply self-critical about the bondage of the women within the household,⁸ the satirised literary self-representation of the Bengali 'baboo' of the later decades recounted a very different order of lapses for himself: his was a self that had lost its autonomy and that now willingly hugged its chains. Rethinking about the burden of complicity with colonialism hammered out a reoriented self-critique as well as a heightened perception about the meaning of subjection. It is, perhaps, no accident, that even the economic critiques of drain, deindustrialisation and poverty would come to be developed by the post-1860s generations.

With the gradual dissolution of faith in the progressive potential of colonialism that accompanied political self-doubt and the failure of indigenous economic enterprises,⁹ there also developed a disenchantment about the magical possibilities of western education that had led the earlier reformers to look hopefully at the public sphere as an arena for the test of manhood, of genuine self-improvement. With the boundaries of activities shrinking into the constrictive limits of parasitic petty landlordism or tenure-holdings and to mechanical chores within an

oppressive and marginalised clerical existence, the household of the bhadralok increasingly appeared as the solitary sphere of autonomy, a site of formal knowledge where—and only here—education would yield practical, manipulateable, controllable results. The Permanent Settlement had generated a class of parasitic landlords with fixed revenue obligation whose passivity was reinforced by uninhibited control over their peasants' rent. The gap between a fixed sum of revenue and a flexible rent procurement in a period of rising agricultural prices, cushioned an existence of fairly comfortable tenure holding. The Rent Acts of 1859 and 1885, however, breaches that security. Organised tenant resistance of the late 19th century led to heightened anxieties and uncertainties among the landed gentry. The household, consequently, became doubly precious and important as the only zone where autonomy and self-rule could be preserved.¹⁰

In the massive corpus of household management manuals that came to occupy a dominant place in the total volume of printed vernacular prose literature of these years, the household was likened to an enterprise to be administered, an army to be led, a state to be governed¹¹—all metaphors, rather poignantly, derived from activities from which colonised Bengalis were excluded. Unlike Victorian middle class situations, then, the family was not a refuge after work for the man. It was their real place of work. Whether in the Kalighat bazaar paintings¹² or in the Bengali fiction of the 19th century workplace situations remain shadowy, unsubstantial mostly absent. Domestic relations constitute the axis around which plots are generated, in sharp contrast with for example, Dickensian novels.¹³

The new nationalist world-view, then, reimagined the family as a contrast to and a critique of alien rule. This was done primarily by contrasting two different versions of subjection—that of the colonised Hindu male in the world outside and of the apparently subordinated Hindu wife at home. The forced surrender and real dispossession of the former was counterposed to the allegedly loving, willed surrender and ultimate self-fulfilment of the latter.¹⁴ It was in the interests of this intended contrast that conjugality was constituted as the centre of gravity around which the discursive field on the family organised itself. All other relations, even the mother-child one (which would come to take up its place as the pivotal point in the later nationalist discourse) remained subordinated to it up to the end of the 19th century. It was the relationship between the husband and wife that mediated and rephrased within revivalist-nationalism, the political theme of domination—subordination, of subjection—resistance as the lyrical or existential problem of love, of equal but different ways of loving.

The household generally, and conjugality specifically, came to mean the last inde-

pendent space left to the colonised Hindu. This was a conviction that was both shaped and reinforced by some of the premises of colonial law. English legislators and judges clearly postulated a basic division within the legal domain. British and Anglo-Indian law had a 'territorial' scope and ruled over the 'public' world of land relations, criminal law, laws of contract and of evidence. On the other hand, there were Hindu and Muslim laws which were defined as 'personal', covering persons rather than areas, and ruling over the more intimate areas of human existence—family relationships, family property and religious life.¹³ Early nationalists chose to read this as a gap between the territory or the land colonised by an alien law, and the person, still ruled by one's own faith—a distinction that the Queen's Proclamation of 1859, promising absolute non-interference in religious matters, did much to bolster.¹⁴ Even in subjected India, therefore, there could exist an interior space that was as yet inviolate.

Far from trying to hegemonise this sphere and absolutising its control, colonial rule, especially in the post-1857 decades, tried to keep its distance from it, thus indirectly adding to the nationalist conviction. The earlier zeal for textualisation and codification of traditional laws was gradually replaced by a recognition of the importance of unwritten and varied custom, of the inadvisability of legislation on such matters, and of urging judicial deference, even obedience, to local Hindu opinion.¹⁵ Towards the end of the century, a strong body of Hindu lawyers and judges came to be formed whose conformity to Hindu practices (*Hindutva*) was often taken to be of decisive importance in judicial decision-making, even though their professional training was in western jurisprudence, and not in Hindu law.¹⁶ There was, moreover, an implicit grey zone of unwritten law whose force was nevertheless quite substantial within law courts.¹⁷ Take a Serampore Court case of 1873, for instance, where a Hindu widow was suing her brothers-in-law for defrauding her of her share in her husband's poverty by falsely charging her with 'unchastity'. Her lawyer referred frequently to notions of kinship obligations, ritual expectations from a Hindu widow and moral norms and practices of high caste women.¹⁸ Clearly, these arguments were thought to have value in convincing the judge and the jury, even though, overtly they had little legal significance. Far from laughing peculiarly Hindu susceptibilities out of court, English judges, even the Privy Council, seriously rationalised them. Referring to the existence of a Hindu idol as a legal person in a different law suit, an English judge commented: "Nothing impossible or absurd in it...after all an idol is as much of a person as a corporation."¹⁹ Legal as well as ritual niceties about the proper disposition of idols were seriously and lengthily debated and sacred objects were brought

into courts of law after due ritual purification of the space.²¹ The introduction of a limited jury system between the 1860s and the 1880s in Bengal further strengthened the voice of local Hindu notables, and, consequently, of local usages and norms. An official recommendation of 1890 curtailed the powers of the jury in many other directions but left the powers of settling marriage disputes intact in their hands.²²

Nor did colonial legislators and judges form a unified, internally coherent body of opinion on proper Hindu norms and practices which they would then try to freeze. A substantial debate developed over a proposal in 1873 to transfer the cognisance of cases connected with marriage offences, especially adultery, from criminal to civil courts. While Simson, the Dacca Commissioner, recommended the repeal of penal provisions against adultery, Reynolds, the Magistrate of Mymensingh strongly demurred: "I have always observed with great aversion the practice of the English law in giving damages in cases of adultery and seduction, and wanted it to remain a criminal offence."²³ About cases of forfeiture of property rights by 'unchaste widows', there was a clear division between the high courts of Allahabad on the one hand and those of Bombay, Madras and Calcutta on the other.²⁴ The divisions reflected the absence of any monolithic or absolute consensus about the excellence of English legal practices as a model for Indian life.

These decades in England had gone through profound changes in women's rights in property holding, marriage, divorce, the rights of prostitutes to physical privacy.²⁵ Englishmen in India were divided about their direction and a significant section felt disturbed by the limited, though real, gains made by contemporary English feminists. They turned with relief to the so-called relative stability and strictness of Hindu rules. The Hindu joint family system, whose collective aspects supposedly fully submerged and subordinated individual rights and interests, was generally described with warm appreciation.²⁶ They found here a system of relatively unquestioned patriarchal absolutism which promised a more comfortable state of affairs after the bitter struggles with Victorian feminism at home. The colonial experience itself mediated and reoriented contemporary debates on conjugal legislation in England. There were important controversies, for instance, between John Stuart Mill and James Fitzjames Stephen on issues of consensus vs force and authority as the valid basis for social and human relations. Stephen, drawing on his military-bureaucratic apprenticeship in India, questioned Mill's premise of complementarity and the notion of the companionate marriage.²⁷ Nor was there a stable legal or judicial model to import. Prior to the Judicature Act of 1873 there were four separate systems of courts in England, each applying its own form of law

often in conflict with each other.²⁸ In any case, the prolonged primacy of case law and common law procedures within England itself made English judges in India agree with Indian legal and nationalist opinion that customs, usages and precedents were far more valid sources of law than legislation.²⁹

A general consensus about the differentiated nature of colonial law, then, postulated a fissure within the system wherein Hindus could insert their claims for a sectoral, but complete autonomy, for a pure space. The specific and concrete embodiment of this purity seemed to lie more within the body of the Hindu women, rather than of the man—a conviction shaped, no doubt, by the growing self-doubt of the post-1857 Hindu male. Increasingly, irony and satire, a kind of black humour, became the dominant form of educated middle class literary self-representation. There was an obsessive insistence on the physical manifestation of this weakness. The feeble Bengali male physique became a metaphor for a larger condition. Simultaneously, it was a site of the critique of the ravaging effects of colonial rule. "The term Bengali is a synonym for a creature afflicted with inflammation of the liver, enlargement of the spleen, acidity or headache."³⁰ Or, "Their bones are weak, their muscles are flabby, their nerves toneless."³¹ Or, "Bengal is ruined. There is not a single really healthy man in it. The digestive powers have been affected and we can eat but a little. Wherever one goes he sees a diseased people."³² Through the grind of western education, office/routine³³ and enforced urbanisation, with the loss of traditional sports and martial activities, it was supposedly marked, maimed and completely remade by colonialism. It was the visible site of surrender and loss, of defeat and alien discipline.

The woman's body, on the other hand, was still held to be pure and unmarked, loyal and subservient to the discipline of shastras alone. It was not a free body by any means, but one ruled by 'our' scriptures, our custom. The difference with the male body bestowed on it a redemptive, healing strength for the community as a whole. An interesting change now takes place in the representation of the Hindu women in the new nationalist discourse. Whereas for the liberal reformers she used to be the archetypal victim figure, for nationalists she had become a repository of power, the Kali rampant, a figure of range and strength.³⁴

What were the precise sources of grace for the Hindu women? She attained it through a unique capacity for bearing pain and discipline that were exercised upon her body by the iron laws of absolute chastity extending beyond the death of the husband, through an indissoluble, non-consensual infant form of marriage, through austere widowhood, and through a proved past capacity for self-immolation. All of them together imprinted an inexorable disciplinary regi-

men upon her person that contained and defined her from infancy to death. Such discipline was not entirely confined to the normative or conceptual sphere. Bengal, with the exception of the Central Provinces and Berar, and Bihar and Orissa, had the highest rate of infant marriages—a custom that cut across caste and community lines and did not markedly decrease even after the Act of 1891.³¹ Before it was banned, as we know, Bengal had also been the heartland of the practice of sati. The Hindu women's demonstrated capacity for accepting pain and harsh discipline thus became the last measure of hope and greatness for a doomed people. Bankim Chandra linked up sati with national regeneration: "I can see the funeral pyre burning, the chaste wife sitting at the heart of the blazing flames, clasping the feet of her husband lovingly to her breasts. Slowly the fire spreads, destroying one part of her body and entering another. Her face is joyful... The flames burn higher, life departs and the body is burnt to ashes. ...When I think that only some time back our women could die like this, then new hope rises up in me, then I have faith that we, too, have the seeds of greatness within us. Women of Bengal You are the true jewels of this country."³² Bankim had plenty of reservations for other aspects of Hindu conjugality,³³ but he seemed to identify with it at its most violent point of termination, through a highly sensualised spectacle of pain and death, a barely disguised parallel between the actual flames destroying a feminine body and the consuming fires of desire.

III

There were two equally strong computations and possibilities of construction of Hindu womanhood—love and pain—which produced a deep anxiety within early nationalism.

The accent on love, had, from the beginning, underlined acute discomfort about mutuality and equality. Pandit Sasadhar Tarkachuramani, the doyen of Hindu orthodoxy, argued that a higher form of love distinguished between western and Hindu marriages. While the former seeks social stability and order through control over sexual morality, the latter apparently aspires only towards "the unification of two souls. "Mere temporal happiness, the begetting of children are very minor and subordinate considerations in Hindu marriage."³⁴ The revivalist-nationalist segment of the vernacular press, polemical tracts and manuals translated the notion of marriage of souls as mutual love, ensured and proved by a lifetime of togetherness since infancy such a uniquely Hindu way of loving anchors the woman's absolute chastity, extending beyond the husband's death, in mutual desire alone.³⁵ Yet the very emphasis on love, so necessary as a critique of alien oppression and misunderstanding of

the Hindu order, was a double-edged weapon: once it was raised, sooner or later, the question of mutuality was bound to come. Was it equally binding on both partners? If it was not so, since Hindu males were allowed to be polygamous, could its jurisdiction on the women be anything more than prescriptive? Particularly, if marriage was imposed on her at infancy without a question of her consent or choice?

Nothing in the Hindu shastras would confirm the possibility of mutually monogamous ties. To redeem the past absence, for the first time in the history of Hindu marriage, a wave of polemical literature appeared that valorised, indeed, insisted on male monogamy: "We find tracts that advise widowers never to remarry."³⁶ Some manuals that advocate self-immolation for the adult widow, simultaneously advise that child widows should be remarried. They could have no obligation towards a husband whom they had not, as yet, come to love.³⁷ Not just sacred texts but custom, too allowed a very wide spectrum of castes to make a second marriage for men possible if the first wife was barren or bore no sons.³⁸ In the absence of a shastric or custom-based injunction against polygamy and given the reluctance among Hindu revivalist-nationalists to invite reformist legislation, male chastity was fated to remain normative rather than obligatory, while the woman's chastity was not a function of choice or willed consent. This was a compromise that became fundamentally difficult to sustain.

Through much of the 1880s we find a studied silence on such uncomfortable potential within Hindu marriage and a self-mesmerising repetition of its innately affective qualities. The infant-marriage ritual is drenched in a warm, suffusing glow of loveability. "People in this country take a great pleasure in infant-marriage. The little bit of a woman, the infant bride, clad in red silk, her back turned towards her boy husband... Drums are beating, and men, women and children are running in order to have a glimpse of that face... from time to time she breaks forth into little ravishing smiles. She looks like a little lovely doll!"³⁹ (italics mine). The key words here are little, lovely, ravishing, pleasure, infant, doll.⁴⁰ They are carefully inserted at regular intervals to make the general account of festivities draw its warmth from this single major source—the delightful and delighted infant bride. The community of "men, women and children" formed round the occasion is bonded together by a deeply sensuous experience, by great visual pleasure, by happiness; happiness is the operative word. We need to note that the radiant picture of innocent celebration is rounded off through the cleverly casual insertion of one phrase: 'boy husband'. Infant marriage, however, was prescriptive for the girl alone and the groom at the side of the 'lovely doll' could be, and frequently was, a mature, even elderly man, possibly much-married already. A strategic

and organising silence lies at the heart of the projected image of desire and pleasure.

Even if the quality of Hindu love was assumed to be a higher one, Hindu marriage was still placed firmly within mainstream developments in the universal history of marriages which had supposedly trodden a uniform path from the 'captive' stage to fairly permanent, often sacramental systems. Any consent-based alternative, whether in ancient Indian or in class-based modern western traditions, were dismissed as aberrations or minor variations.⁴¹ A long editorial, significantly entitled *The Bogus Science*, questioned the sources and authenticity of reformist knowledge: the nature of their evidence, of deduction, of arrangement, of proof.⁴² The powerful eugenics-based argument against infant-marriage (infant marriages produce weak progenies) was countered by a climatic view of history:⁴³ irrespective of the age of parents, a tropical climate was bound to produce weak children. Reformers were accused of casuistry or weak logic. Since the Penal Code had earlier laid down 10 as the minimum age of consent, how would raising it to 12 ensure genuine consent? "A girl of fourteen or sixteen is not capable of legally signing a note of hand for 5 rupees and she is *ipso facto* a great deal more incompetent to give her consent to defile her person at twelve."⁴⁴ It was also considered to be more than a little dishonest to place such importance on the woman's consent in this one matter since within post marital offences, "in the case of the wife the point does not turn on consent, for, if that had been the case, there would have no such offence as adultery in the Penal Code."⁴⁵ A high premium was thus placed on the rule of rationality in the defence of Hindu marriage.

Hindu rationality was represented as a more supportive world view than reformist or colonial projects. Given the physical and economic weakness of women, an indissoluble marriage tie had to be her only security—a contention that once again conveniently overlooked the fact, that, in a polygamous world, indissolubility was binding, in effect, on the women alone. A clear-eyed kulin brahmin widow had remarked: "People say that the seven ties that bind the Hindu wife to the husband do not snap as they do with Christians or Muslims. This is not true. According to Hindu law, the wife cannot leave the husband but the husband may leave her whenever he wants to."⁴⁶ It was also maintained that consent was immaterial since parents were better equipped to handle the vital question of security than an immature girl.⁴⁷ Security also largely depended upon perfect integration with the husband's family, so the sooner the process began, the better it was for the girl.⁴⁸

Hindu marriage, in the rather defensive discourse of the 1880s, then, was more pleasurable and more beautiful, kinder and safer, more rational and guaranteed by a sounder system of knowledge. In any case,

it was essentially a part of universal developments in the history of civilisations. Differences in marriage system between the Hindu and the non-Hindu, therefore, were, so far played down, if not obliterated.

The Rukma Bai episode of 1887 made it imperative at last to rewrite the narrative of love and pleasure in the language of force. The earlier lyricism had already been ruptured from time to time to underline and recuperate the basic logic of non-consensuality. At a meeting convened at the palace of the Shova Bazar Raj, Rajendralal Mitra had insisted: "in it [Hindu marriage] there is no selection, no self-choice, no consent on the part of the bride. She is an article of gift, she is given away even as a cow or any other chattel." Laughter greeted his exposition approvingly and he went on: "There is in Hinduism not the remotest idea of choice and whoever changed any small part of it was no Hindu."⁵³ Rukma Bai's action violently foregrounded the sexual double standards and made a mockery of the notion of the loving heart of Hindu conjugality. A lot of the debate centred around the vexed question—whether a woman could sue for separation from an adulterous husband. "Among the Hindus, unchastity on the part of the husband is certainly a culpable offence but they set much higher value upon female chastity": its erosion would lead to the loss of family honour, growth of half-castes and the destruction of ancestral rites.⁵⁴ Bare, stark bones that formed the basic foundation of Hindu marriage now began to surface, threatening to blow the edifice of love away. "A good Hindu wife should always serve her husband as God even if that husband is illiterate, devoid of good qualities and attached to other women. And it is the duty of the government to make Hindu women conform to the injunctions of the Shastras."⁵⁵ The basis of conjugality now openly shifts to prescription.

Rukma Bai had forced a choice upon her community—between the women's right to free will and the future of the pristine essence of Hindu marriage. The two could no longer be welded together as a perfect whole. Revivalist-nationalists had to treat the two as separate, conflicting units and indicate their partisanship.

That came forth in no time at all. "It is very strange that the whole of Hindu society will suffer for the sake of a very ordinary woman."⁵⁶ Or, "kindness to the female sex cannot be a good plea in favour of the proposed alteration."⁵⁷ Interestingly, the episode had shown up another fault in the image of the Hindu community. Rukma Bai belonged to the carpenter caste where divorce had been customary. Whose custom must colonial law recognise now? Was Hinduism a heterogeneous, indeed, self-divided, self-contradictory formation, or was it a unified monolithic one? The revivalist-nationalist answer, once again, was

unambiguous. "The Brahmin caste occupies the highest position and all laws and ordinances have been formed with special reference to that. All the other castes conduct themselves after the fashion of the Brahminical castes."⁵⁸ Or, "it is true that divorce obtains among some low caste people and the government should be really doing an important duty as a ruler if it should make laws fixing and negotiating the uncertain and unsettled marriage customs of the people."⁵⁹

The debate prised open the imagined community along the lines of caste and gender and delineated the specific contours of the revivalist-nationalist agenda. It could no longer base its hegemonistic claims on its supposed leadership to the struggles of a whole subjected people for autonomy and self-rule in their 'private' lives. Its nationalism became more precisely defined as the rule of brahmanical patriarchy. Its rationality was one of forced and absolute domination of upper-caste, male standards, not one of universal reason leading towards freedom and self-determination for the dispossessed. If it aspired to detach Hindus from a colonised reason and lead them to self-rule, it would only do so by substituting for it a brahmanical, patriarchal reason based on scripture-cum-custom, both of which were as disciplinary and deprivational for the ruled subjects as was the colonial regime in the sphere of Indian political economy. Contestation of colonisation was no simple, escape from or refusal of power: nor had colonialism equally and entirely disempowered all Indians. Resistance was an agenda itself irrevocably tied to schemes for domination, an exercise of power that was nearly as absolute as that which it resisted.

IV

Very curiously, one possibility within Hindu marriage had not occurred to reformists or to Bengali Hindu militants—the possibility of sexual abuse of infant wives. There had been, from time to time, the occasional stray report. The *Dacca Prakash* of June 1875 reported that an 'elderly' man had beaten his child wife to death when she refused to go to bed with him. Neighbours had tried to cover it up as suicide but the murder charge was eventually proved against him. The jury, however, let him off with a light sentence.⁶⁰ The *Education Gazette* of May 1873 had reported a similar incident when the 'mature' husband of a girl of 11 "dragged her out by the hair and beat her till he killed her" for similar reasons. He was let off with a light sentence as well.⁶¹ Reporting remained sporadic and the accounts were not picked up and woven into any general discussion about Hindu marriage as yet. The controversy about the right age of consent continued to hinge on eugenics, mortality, child rearing and family interests.

In 1890, Phulmonee, a girl of about 10 or 11, was raped to death by her husband, Hari Mati, a man of 35. Under existing Penal Code provisions, however, he was not guilty of rape since Phulmonee had been well within the statutory age limit of 10. The event, however, added enormous weight and urgency to Malabari's campaign for raising the age of consent from 10 to 12. The reformist press began to systematically collect and publish accounts of similar incidents from all over the country. Forty-four women doctors brought out long lists of cases where child-wives had been maimed or killed because of rape.⁶² From the possible effects of child marriage on the health of future generations the debate shifted to the life and safety of Hindu wives.

Phulmonee was the daughter of late Kunj Bchari Maitee, a man from the 'Oriya Kyast' caste, who had been a 'Bazar Sircar' at Bow Bazar Market. It was a well paid job and it seems that by claiming 'Oriya Kyast' status, the family was trying for a superior caste position in consonance with their economic viability since Maitees are otherwise categorised as a low sudra group. The family frequently referred to its specific caste practices in court with some pride. They said that while they adhered to child marriage, they forbade cohabitation before the girl menstruates, and that in this case, Phulmonee had not done so. Their version was that the newly-married couple had been kept apart according to caste rules, and that Hari, on a visit to his in-laws, had stolen into Phulmonee's room and had forced himself upon her, thereby causing her death. Hari Maitee, however, insisted that since the marriage she had spent at least a fortnight at his house and they had slept together all the time. He made no mention of caste rules against pre-menstrual cohabitation. It seems then that caste customs remained loose and flexible, and that each family would allow considerable manipulation within them.

Even though Hari Maitee had insisted that on the last night they had not had intercourse, medical opinion was unanimous that the girl had died of violent sexual penetration. If the court accepted that Hari was right and that Phulmonee had slept with him earlier, then it could go a long way to show that since nothing untoward had happened earlier, on the fatal night in question, Hari would not have any reason to suspect that a more vigorous penetration might lead to violent consequences. He would, in fact, have been convinced that intercourse was perfectly safe. The English judge, Wilson, clearly indicated that he chose to accept Hari's version, thus exonerating him from the charge of culpable homicide. The charge of rape in any case, was not permissible since the Penal Code provisions ruled out the existence of rape by the husband if the wife was above the age of 10. The judge was equally opposed to any extension of the

strict letters of the law in this case to devise exemplary punishment for a particularly horrible death: "Neither judges nor Juries have any right to do for themselves what the law has not done."

The judge, then, built up his case on the hypothetical argument that the couple had slept together earlier. He chose to ignore the version given by the women in the girl's family—of Radhamonee, Bhondamonee and Sonamonee, the mother, aunt and grandmother of the girl.

I think it is my duty to say that I think there exists hardly such solid and satisfactory ground as would make it safe to say that this man must have had knowledge that he was likely to cause the death of the girl... You will, of course, in these, as in all matters, give the benefit of any doubt in favour of the prisoner.

The weight of concern is, very blatantly, on the exoneration of the man rather than on the fate of the women. The law itself was shaped so as to preserve custom as well as the male right to the enjoyment of an infantile female body. What needs to be particularly noted here is that throughout the trial, the judge was saying nothing about a husband who insisted on sleeping with a child, or about the custom which allowed him to do so with impunity. Above all, he was not making any judgmental comparison between the ways of husbands, eastern or western. In fact, he bent over backwards to exonerate the system of marriage that had made this death possible.

Under no system of law with which Courts have had to do in this country, whether Hindu or Mohammedan, or that formed under British rule, has it ever been the law that a husband has the absolute right to enjoy the person of his wife without regard to the question of safety to her.⁶¹

Both the Hindu husband and the Hindu marriage system are generously exempted from blame and criticism. There is, in fact, an assertion about the continuity in the spirit of the law from the time of the Hindu kingdoms to the time of British rule.

A significant body of English medical opinion confirmed the clean bill of health that the colonial judiciary had advanced to the Hindu marriage system. Even in a strictly private communication, meant for the colonial officialdom alone, the secretary to the Public Health Society wrote to the government of Bengal:

The council direct me to lay special stress upon the point...that they base no charge against the native community.

They reverently cited the work on Hindu law by Sir Thomas Strange to evoke, in near-mystical terms, the supreme importance of his marriage rules to the Hindu, and the inadvisability of external interference with them:

The council admit that our native fellow subjects must be allowed the fullest possible freedom in deciding when their children

should be ceremonially married. That, in the constitution of Hindu society, is a matter with which no Government could meddle and no Government ought to meddle.

They proceeded to review the considerable medico-legal data on sexual injuries inflicted on child wives and concluded that whatever the weight of evidence on the matter, the system of infant marriage must continue unabated. The age of commencing cohabitation could be raised only if *Hindus themselves expressed a great desire for change* (emphasis mine).

Contrary to received wisdom, then, there is hardly a vision of remaking the Hindu as a pale image of his master, of designs of total change and reform. Macaulay's notorious plan of recasting the native as a brown sahib was not necessarily a design that remained uniformly dominant for the entire spectrum of colonial rule. Even when dominant, it had to make crucial negotiations with other imperatives and value preferences and, above all, with the everlasting calculation of political expediency. If, at the time of Macaulay, the Anglicist vision of a westernised middle class had appeared as the strongest reservoir of loyalism, soon enough other alternatives emerged and were partially accommodated, modifying the earlier formula and crucially mitigating its reformist thrust. Our moment of the 1890s comes after a long spell of middle class agitation over demands of constitutional rights, of Indianisation of the services, of security against racial discrimination and abuse. It comes after the outburst of white racism over the Ilbert Bill issue when the educated middle class was temporarily vested with the possibility of standing in a position of judicial authority over European. Empowering the Indian through westernisation, consequently, came to be envisaged as the most threatening menace to the colonial racial structures.⁶² It was a moment when the slightest concession to Indian liberal reformism would be made most unwillingly and only on the belief that it represented a majority opinion.

The new legislation was conceived after the reformist agitation had convinced the authorities that the 'great majority' was ready for change.⁶³ Right after the Phulmonee episode, the revivalist-nationalists were maintaining a somewhat embarrassed silence which was broken only after the proposed bill came along. During the interval, it was the reformist voice alone that could be audible. Since this, for the moment, looked like the majority demand, political expediency coincided temporarily with reformist impulse and the government committed itself to raising the age of consent. At the same time, official opinion in Bengal did not extend the terms of the specific reform to any larger plans for invasive changes. On the contrary, if displayed a keenness to learn from the codes of Hindu patriarchy. Did a recognition that they were confronted with the most abso-

lute form of patriarchal domination evoke a measure of unconscious respect and fellow feeling among the usually conservative, male English authorities, rather than the instinct for reform? As the Secretary to the Public Health Society put it: "The history of British rule and the workings of British courts in India manifest a distinct tenderness towards...the customs and religious observances of the Indian people."⁶⁴

There was still the mangled body of "that unhappy child, Phulmonee Dasse," a girl of ten or eleven, sexually used by a man whom she had known only for a few weeks, who was twenty-nine years her senior, and who had already been married once (aunt Bhondamonee's evidence in court). There was the deposition of her mother Radhamonee: "I saw my daughter lying on the cot, weltering in blood... Her cloth and the bedcloth and Hari's cloth were wet with blood."⁶⁵ There was unanimous medical opinion that Hari had caused the death of a girl whose body was still immature and could not sustain penetration. She died after 13 hours of acute pain and continuous bleeding. The dry medical terminology somehow accentuates the horror more than words of censure:

A clot, measuring 3 inches by one-and-a-half inches in the vagina... a longitudinal tear one and three quarters long by one inch broad at the upper end of the vagina... a haematoma three inches in diameter in the cellular tissue of the pelvis. Vagina, uterus and ovaries small and undeveloped. No sign of ovulation.⁶⁶

Phulmonee's was by no means an isolated case. Dr Chever's investigations of 1856 had mentioned at least 14 cases of premenstrual cohabitation that had come to his notice, and the subsequent findings incorporated in Dr McLeod's report on child marriage amply corroborated his data.⁶⁷ We may presume that only such cases as would have needed police intervention or urgent medical attention would be entered into the records. These were, then, cases of serious damages that resulted from premature sexual activity. An Indian doctor reported in court that 13 per cent of the maternity cases that he had handled involved mothers below the age of thirteen. The defence lawyer threw a challenge at the court: cohabiting with a pre-pubertal wife might not have Shastric sanction, yet so deep-rooted was the custom that he wondered how many men present in court were not in some way complicit with the practice?⁷⁰

The divisional commissioners of Dacca, Noakhali, Chittagong and Burdwan deposed that child marriage was widely prevalent amongst all castes, barring the tribals, in their divisions. The commissioner of Rajshahi division found that only in Jalpaiguri district "Mechhes and other aboriginal tribes do not favour child marriage... amongst the Muhammadans and Rajbunghis, females being useful in field work, are not generally married until they are more advanced in

age". On the whole, it was more common among lower castes. The average age of marriage for upper caste girls was slowly moving up to 12 or 13 due to the relatively large spread of the new liberal education among them, and, ironically, to the growing pressures of dowry which forced parents to keep daughters unmarried till they could put together an adequate amount of dowry.⁷¹ In fact, the compulsion to delay marriage till the dowry could be collected would have found a convenient ally in the new liberalism. Among the lower castes, on the other hand, emulation of brahmanical orthodoxy rather than of liberal values would be a more assured way of claiming a pure ritual status. Wherever infant marriage prevailed, there was no way of ensuring that cohabitation would be delayed till the onset of puberty.

While both scriptural and customary injunctions were too strongly weighted in favour of early marriage to allow a raising of the age of marriage for girls, certain parts of the shastras did prescribe against pre-pubertal cohabitation among married couples. Nobin Chandra Sen, poet and district magistrate of Chittagong, suggested that this injunction could be reinforced with legislation. Official opinion tried to distinguish between two distinct levels in marriage; the wedding ceremony itself was interpreted as a sort of a betrothal, after which girls remained in their parent's homes. It was only after the onset of puberty that they went through a 'second marriage' and went off to live with their husbands. A group of 'medical reformers' (Indian as well as European doctors who advocated changes in marriage rules on strictly medical grounds) as well as administrators advised legislation to ban marital cohabitation before the performance of the second marriage. They hoped that there was sufficient shastric as well as customary sanction behind the practice.⁷²

It was soon clear, however, that too much was being made of the 'second marriage'. It was not generally taken to constitute a distinct separate stage within marriage as a whole. While there was a widespread recognition that girls should begin regular cohabitation only after they attained puberty, the custom was customarily violated. Once the marriage had been performed, a lot of domestic, especially feminine, pressure pulled the wife into the husband's family. In any case, it was difficult to decide exactly at what age girls attained puberty and to make sure that no girl was sent off to her husband before that. Any viable piece of legislation would have to spell out a definite age at which puberty starts rather than indicate a general physical condition.

The definition of puberty proved to be the stumbling block. According to custom, it was equated with the onset of regular menstruation. And here, revivalist-nationalists were treading delicate ground. While they wanted to oppose the proposed age of 12,

they could not push the age too far back, since they had not opposed the earlier Penal Code ban on marital cohabitation before the girl was 10. If they now chose to construe the earlier ban as an oppressive intrusion that had already interfered with Hindu marriage practices, then they could no longer sustain their present agitational rhetoric: that the current intervention was the first fundamental violation of Hindu conjugality and therefore spelt the beginning of the end of the only free space left to the Hindu. Without this sense of a new, momentous beginning of doom, the pitch of the highly apocalyptic rhetoric would fall flat. If the new legislation were to be seen as merely a part of a long-drawn out process, then opposition to it could hardly invest itself with a life or death mission. They, therefore, insisted that 'true puberty' only occurred between the ages 10 and 12. Even if menstruation occurred earlier, it would be a fluke and not a regular flow. The earlier Penal Code regulation had not therefore interfered with the garbhadhan ceremony. Since in the hot climate of Bengal, menarche was sure to start between 10 and 12, the further raising of the age of consent would constitute the first real breach in ritual practice.

Reformers argued that puberty sets in properly only after 12. In this, they used a different notion of puberty itself. While revivalist-nationalists unequivocally equated puberty with menarche, medical-reformers argued that puberty was a prolonged process, and menarche was the sign of its commencement, not of its culmination. The beginning of menstruation did not indicate the girl's 'sexual maturity' which meant that her physical organs were developed enough to sustain sexual penetration without serious pain or damage. Until that capability had been attained, they argued, the notion of her consent was meaningless.

It is remarkable how all strands of opinion—colonial, revivalist-nationalist, medical-reformer—agreed on a definition of consent that pegged it to a purely physical capability, divorced entirely from free choice of partner, from sexual, emotional or mental compatibility. Consent was made into a biological category, a stage when the female body was ready to accept sexual penetration without serious harm. The only difference lay in assessing when this stage was reached.

It would be simplistic, however, to conclude that there was a complete identity in patriarchal values between reformers and revivalists. Whatever their broader views, reformers always had to struggle with a minimalist programme since nothing else would have the remotest chance of acceptability either with the legislative authorities, or with Hindu society. We only have to remind ourselves about the explosive protests that this legislation provoked. Reformist campaigning for legislation was

more of a consciousness raising device, a foregrounding of issues of domestic ideology than pinning effective hopes of real social change to acts. Nor was the minimalist programme of insisting on the woman's physical safety an insignificant matter, under the circumstances. Revivalist-nationalists on the other hand, grounded their agenda on the most violently authoritarian regime of patriarchal absolutism. Their insistence on self-rule in the domestic sphere coincided with their insistence that the Hindu girl should sacrifice her physical safety, and even her life, if necessary, to defend the community's claim to autonomy.

As the reformist campaign gathered momentum and as the government, by the end of 1890, seemed committed to Malabari's proposals, Hindu militants were faced with two options. They could accept a radical reorientation of their earlier emphasis: that is, they could admit of a basic problem within present marriage practices and then delink them from past, supposedly authentic norms. This way, they could still maintain their distance from reformers by insisting on reform from within in place of alien legislation from outside. While this would have amounted to an honourable face-saving device, it would still have implied an assault on the totality and inviolability of what had so far been exalted as the essential core of the system. Worse still, it would have amounted to a surrender to missionary, reformist and rationalist critiques of Hindu conjugality. On the other hand, it could come to terms with the phenomenon of violence and build its own counter campaign around its presence. If difference was found to lie not in superior rationality, greater humanism, pleasure or love, but, rather, in pain and coercion, then these constituents of difference should be admitted and celebrated.

The Age of Consent Bill could have reasonably been faulted on many counts. It was an unbelievably messy and impractical measure. Reporting and verification of crime were generally impossible in familial situations. Even if the girl (if she survived) and her parents were willing to depose against the husband, neighbours, whose evidence was crucial in such cases, usually protected the man. Proving the girl's age was fairly impossible in a country where births are still not registered. Medical examination was often inconclusive. Where matters did eventually reach the court, the jury, and British judges, fearful of offending custom, rarely took up a firm stand. In 1891, the mother of a young girl had pressed for legal action in such a case and the girl herself gave very definite evidence in court. On the basis of a dental examination the English magistrate, however, could not be absolutely certain that she was not over 12. The husband was consequently discharged.⁷³

Unnerved by the massive anti-bill agitations, the government itself hastened to undermine the scope of the act. Five days after its enactment, Lord Lansdowne sent circulars instructing that enquiries should be held by "native Magistrates" alone and in any case of doubt, prosecution should be postponed.⁷⁴

The nationalist press referred to these problems from time to time but used them as auxiliary arguments rather than as central ones. Certain other kinds of political criticism found a stronger resonance. There was a powerfully articulated fear about the extension of police intrusion right into the heart of the Hindu household.⁷⁵ There was also strong opposition on the ground that an unreformed and unrepresentative legislature should not legislate on such controversial matters⁷⁶—a criticism that sought to link up the anti-Bill agitation with current Moderate Congress-type constitutional demands. These protests too remained rather marginal to the true core of the Hindu revivalist-nationalist debate which was carried on by hardliners like the newspapers *Bangabashi*, *Dainik O Samachar Chandrika* or the *Amritabazar Patrika*.

Hindu nationalists started on a very familiar note that had been struck on all sorts of issues since the 1870s: a foreign government was irrevocably alien to the meaning of Hindu practices. And, where knowledge does not exist, there power must not be exercised. A somewhat long illustration from the *Dainik O Samachar Chandrika* sums up a number of typical statements on the matter.

That a woman should, from her childhood, remain near her husband, and think of her husband and should not even think of or see the face of another man...are injunctions of the Hindu Shastras, the significance whereof is understood only by 'sastvik' [pure] people like the Hindus. The English look to the purity of the body. But in Hindu opinion she alone is chaste and pure who has never even thought of one who is not her husband. No one who does not see with a Hindu's eye will not be able to understand the secret meaning of Hindu practices and observances.... According to the Hindu the childhood of a girl is to be determined by reference to her first menses and not to her age...⁷⁷

The first point made here is a methodological one that disputes the attempt to comprehend any foreign system of meaning through one's own cognitive categories (and immediately proceeds to do so itself by generalising on English attitudes about the body and the soul). The meaning of Hindu female childhood is then made different through a different arrangement of medical, sexual, moral and behavioural conditions. While revivalist-nationalists do not, as yet, insist on complete autonomy in the actual formulation and application of personal laws, they do claim the sole and ultimate right to determine their general field of

operations. The claim is justified by breaking up and dispersing the sources of Hindu conjugality among numerous and ever-shifting points of location. Some could be based on written texts, some located in oral traditions, yet others in ritual practices, and—most problematic of all—a whole lot could be simply embedded in an undefinable, amorphous, diffused Hindu way of life, accessible to Hindu instincts alone. The intention is to disperse the sources of Hindu Law and custom beyond codified texts, however, authoritative or authentic those might be. Even an ancient authority like Manu, who advocated 16 as the upper limit of marriage age for girls, was dismissed as someone who wrote for the colder northern regions where puberty came later. Charak and Susruta were dismissed even more summarily as near-Buddhists who had scant regard for true Hindu values. The process of wide dispersal renders Hindu customs opaque and infinitely flexible, to the point of being eternally elusive to the colonial authorities.

The crucial emphasis lay on the reiteration that the proposed law was the first of its kind to breach and violate the fundamentals of Hinduism. The argument could only be clinched by recognising the importance of earlier colonial interventions in Hindu domestic practices. Sati, it was argued, was never a compulsory ritual obligation and its abolition therefore merely scratched the surface of Hindu existence. The Widow Remarriage Act had a highly restricted scope, simply declaring children born of a second marriage to be legal heirs to their fathers' properties.⁷⁸ Reformers replied that the new bill was no unprecedented revision of custom either, since the Penal Code had already banned cohabitation for girls before the age of 10. Since girls could attain puberty before that age, the sanctity of the garbhadhan ceremony had already been threatened. Hindu revivalist-nationalists retaliated with a reference to the elusive sources of Hindu custom and a notion of the Hindu 'normalising' order which could be grasped by pure-born Hindus alone.

It seems they [the reformers] do not know the meaning of *Adya Ritu* [real menses]. Mere flow of blood is no sign of *Adya Ritu*. A girl never menstruates before she is 10 and even if she does the event must be considered unnatural.⁷⁹ This took care of the 1860 Penal Code provision against cohabiting with a girl under 10. An 'authentic' Hindu girl according to revivalists does not reach puberty before she is 10. The earlier ban had therefore not really tampered with Hindu practices. Were the ceiling to be extended to 12, a serious interference would take place. The meaning of physicality itself is constituted differently and uniform biological symptoms do not point to a universal bodily developmental scheme, since Hindus alone know what stands for the normal and the abnormal in the body's growth.

The insistence that the English were about

to commit the primal sin against Hinduism, that an unprecedented attack was going to be mounted on the last pure space left to a conquered people, was necessary to relocate the beginnings of true colonisation here and now—so that a new chronology of resistance could also begin from this moment, redeeming the earlier choice of loyalism.

The Indians have felt for the last two centuries that India is no longer theirs, that it has passed into the hands of the Yavanas. But the Indians have, up to this time, found solace in the thought that though their country is not theirs, their religion is theirs.⁸⁰

Or, even more forcefully and explicitly, "No, no, a hundred battles like that of Plassey, Assay, Multan could not in terribleness of effect compare with the step Lord Lansdowne has taken."⁸¹ With the possibility of protest in the near future, apocalyptic descriptions of subjection became common: "The day has at length arrived when dogs and jackals, hares and goats will have it all their way. India is going to be converted into a most unholy hell, swarming with hell worms and hell insects. ...The Hindu family is ruined."⁸²

It was this language of resistance and repudiation that gave the Age of Consent controversy such wide resonance among the Bengali middle class. The *Bangabashi*, in particular, formulated a rhetoric in these years with phenomenal success,⁸³ becoming in the process, the leading Bengali daily, changing over from its weekly status, and pulling a whole lot of erstwhile reformist papers with its orbit for some time. Even Vidyasagar, the ideal-typical reformer figure, criticised the bill.⁸⁴

The response of a fairly pro-reform journal, the *Bengalee*, epitomises the way in which the new agitational mood reacted on a potentially reform-minded, yet largely nationalist intelligentsia. It had supported the bill quite staunchly up to the end of January, 1891, after which there seemed to occur an abrupt change of line. In February, after reporting on "an enormous mass protest meeting, the largest that had ever been held", it started to find problems with the legislation—albeit more of a constitutional kind, with reflections upon the unrepresentative nature of the legislature.⁸⁵ In March it covered yet another mammoth protest meeting and then redefined the grounds of its own opposition. "It is no longer the language of appeal which opponents of the Bill address to the rulers of the land... However much we may differ from the opponents of the measure, we cannot but respect such sentiments."⁸⁶

We, therefore, turn to the 'language' of the opponents, to the *Bangabashi*. Here was a radical leap from mendicant appeals, from oblique and qualified criticism and from guilt and shame-ridden self-satirisation. Here was the birth of a powerful, self-confident nationalist rhetoric. "Who would

have thought that a dead body would rise up again? Whoever thought that millions of corpses would again become instinct with life?"⁶⁷ There was an exhilarating sense of release in the naming of the enemy.

The Englishman now stands before us in all his grim and naked hideousness. What a grim appearance. How dreadful the attitude... The demons of cremation ground are laughing a wild, weird laugh. Is this the form of our Ruling power? Brahmaraksharh, Terror of the Universe; Englishmen... do you gnash your teeth, frown with your red eyes, laugh and yell, flinging aside your matted locks...and keeping time to the clang of the sword and bayonet...do you engage yourselves in a wild dance...and we...the twenty crores of Indians shall lose our fear and open our forty crores of eyes.⁶⁸

Very confidently, almost gleefully, every former trapping of rationalisation was peeled away from the core message. Admittedly sanction for infant marriage came from Raghunandan alone, who was a late and local authority. It might well lead to other deaths.⁶⁹ It did, in all likelihood, weaken future progeny and lead to racial degeneration; but "the Hindu prizes his religion above his life and short-lived children".⁷⁰ Hindu shastras undoubtedly imposed harsh suffering on women. "This discipline is the pride and glory of chaste women and it prevails only in Hindu society".⁷¹ There were yet other practices that might bring on her death.

Fasting on *Ekadashi* (fortnightly fasting without even a drink of water that widows are meant to ritually maintain) is a cruel custom and many weak-bodied widows very nearly die of observing it...it is prescribed only in a small 'tatwa' of Raghunandan. Is it to be banned, too, for this reason, the guardian of the widow arraigned in front of the High Court and pronounced guilty by the Baboo jurors?⁷²

There would be other Phulmonees who would die similar violent deaths through infant marriage. Yet,

"the performance of the garbhadhan ceremony is obligatory upon all. Garbhadhan must be after first menstruation. It means the first cohabitation enjoined by the shastras. It is the injunction of the Hindu shastras that married girls must cohabit with their husbands on the first appearance of their menses and all Hindus must implicitly obey the injunction. And he is not a true Hindu who does not obey it...If one girl in a lakh or even a crore menstruates before the age of twelve it must be admitted that by raising the age of consent the ruler will be interfering with the religion of the Hindus. But everyone knows that hundred of girls menstruate before the age of twelve. And garbhas (wombs) of hundred of girls will be tainted and impure. And the thousands of children who will be born of those impure garbhas will become impure and lose their rights to offer 'pindas' [ancestral offerings]."⁷³

Even in translation the power of the voice comes through. The repetitive short sentences joined by 'ands', the frequency of the word 'must', the use of vaster and yet vaster numbers to build up inexorably towards a sense of infinite doom—all add up to an incantatory, mandatory, apocalyptic mode of speech that is the typical vehicle for a fundamentalist millenarianism. All external reasoning has been chipped away, just the bare mandate is repeated and emphasised through threats and warnings. This is an immensely powerful, dignified voice, aeons away from timid mendicancy or morbid self-doubt. This is the proud voice of the community, legislation on itself in total defiance of foreign rule, of alien rationalism. It speaks the authoritative word in the appropriately authoritarian voice. The Hindu woman's body is the site of a struggle that for the first time declares war on the very fundamentals of an alien power-knowledge system. Yet it is not merely a displaced site for other arguments but remains, at this moment, the heart of the struggle. Bengali Hindu revivalist-nationalism, at this formative moment, begins its career by defining itself as the realm of unfreedom.

I would not like to end, however, with this speech, however, powerful. Its very contestation of alien reformism and rationalism, its defence of community custom, represses the pain of its women whose protest was drowned to make way for an alleged consensus. It is no longer possible to resurrect the protest of Phulmonee and of many, many other battered child wives who died or nearly died as a result of marital rape. We have, however, several instances when cases were lodged at the initiative of the girl's mothers, sometimes forcing the hands of the male guardians—a rare demonstration of the woman's protest action for those times. We also have a court deposition left by a young girl who was severely wounded and violated by her elderly husband.

"I cannot say how old I am. I have not reached puberty. I was sleeping when my husband seized my hand...I cried out. He stopped my mouth. I was insensible owing to his outrage on me. My husband violated me against my will. ...When I cried out he kicked me in the abdomen. My husband does not support me. He rebukes and beats me. I cannot live with him

The husband was discharged by the British magistrate and the girl was restored to him."⁷⁴

Notes

1 I use the term 'militant nationalism' in a somewhat unconventional sense here: not as a part of a definite and continuous historical trend but as a moment of absolute and violent criticism of foreign rule that was developed by a group of Hindus in the late 1880s and early 1890s, largely

over Hindu marriage controversies. Certain newspapers, especially the *Bangabashi*, took the lead in mobilising protest, organising mass rallies and provoking official prosecution. That particular group, however, soon withdrew, from the scene of confrontation. In the Swadeshi movement of 1905-08, the *Bangabashi* would remain quiescent, even loyal to the authorities. I owe this piece of information to Sumit Sarkar. For an excellent study of the newspaper see Amiya Sen, 'Hindu Revivalism in Bengal' (unpublished thesis, Delhi University, 1980).

2 Charles H Heimsath, *Indian Nationalism and Hindu Social Reform*, Princeton University Press, pp 91-94; Ajit Kumar Chakraborti, *Maharshi Dabendranath Tagore*, Allahabad, 1916, Calcutta, 1971, pp 406-35.

3 The act of 1877 was a colonial intervention to tighten up the marriage bond which the Hindu orthodoxy strongly defended on the ground that it coincided with, and reinforced the true essence of Hindu conjugality.

4 See Dagmar Engels, 'The Limits of Gender Ideology: Bengali Women, the Colonial State and the Private Sphere, 1890-1930, *Women Studies*', *International Forum*, Vol 12, 1989.

5 Heimsath, op cit, pp 147-75.

6 See extracts from *Bangabashi* and *Dainik O Samachar Chandrika* between 1889 and 1891 in *Report on Native Newspapers, Bengal* (henceforth RNP, Bengal).

7 For this version of Cambridge historiography on Indian nationalism see, Gallagher, Seal and Johnson, *Locality, Province and Nation*, Cambridge, 1973.

8 I have discussed this in *Hindu Household and Conjugality in Nineteenth Century Bengal*, paper read at the Women's Studies Centre, Jadavpur University, Calcutta, 1989.

9 N K Sinha, *Economic History of Bengal*, Calcutta, n.d.

10 N K Sinha (ed), *The History of Bengal*.

11 See for instance Prasad Das Goswami, *Amader Samaj*, Serampore 1896; Ishanchandra Basu, *Sri Diger Prati Upadesh*, Calcutta, n.d.; Kamakhya Charan Bannerji, *Sri Shiksha*, Dacca, 1901; Monomohan Basu, *Hindur Achar Vyavahar*, Calcutta 1872; Chandranath Basu, *Garhasthya Path*, Calcutta 1887; Bhubaneswar Misra, *Hindu Vivaha Samalochan*, Calcutta 1875; Tarakhnath Biswas *Bangiya Mahila*, Calcutta 1886; Anubicharan Gupta, *Grihastha Jivan*, Calcutta 1887; Narayan Roy, *Bangamali*, n.d., Calcutta; Chandrakumar Bhattacharya, *Bangavivaha*, Calcutta 1881; Pratapchandra Majumdar, *Sri Charitra*, Calcutta n.d.; Purnachandra Gupta, *Bangali Bau*, Calcutta 1885; and many others.

12 See the preponderance of this theme in the collection of W C Archer, *Bazaar*

- Paintings of Calcutta*, London, 1953.
- 13 See, for instance, plots in the novels of Bankimchandra, *Bankim Rachanabali*, Vol I, Calcutta.
 - 14 Prasad Das Goswami, op cit.
 - 15 See, for instance, Sir William Markby, Fellow, Balliol College and erstwhile judge in Calcutta High Court, *Hindu and Mohammedan Law*, 1906, Delhi, 1977, pp 2-3.
 - 16 See, frequent references to the Queen's Proclamation in the agitational writings in the nationalist press, RNP Bengal, 1887-91.
 - 17 Markby, op cit, for a convergence of the views of this Orientalist scholar-cum-colonial judge with Hindu legal opinion, compare him with Sripati Roy, *Customs and Customary Law in British India*, Tagore Law Lectures, 1908-09, reprinted in Delhi 1986, pp 2-6.
 - 17a See J D N Derrett, *Religion, Law and the State in India*, London, 1968.
 - 18 For a clarification of the notion of unwritten law, see Robert M Ireland, *The Libertine Must Die: Sexual Dishonour and the Unwritten Law in the 19th Century United States*, *Journal of Social History*, Fall 1989.
 - 19 *The Bengalee*, March 7, 1873.
 - 20 Markby, op cit, p 100.
 - 21 This relates to a case involving the disposition of a Shalgram-shila in case of Surendranath Bannerjee vs the thief justice and judges of the high court at Fort William, July 1883. See an account in Subrata Choudhary, 'Ten Celebrated Cases Tried by the Calcutta High Court' in *The High Court at Calcutta, Centenary Souvenir 1852-1962*, Calcutta, 1962.
 - 22 Sharmila Bannerjee, *Studies in the Administrative History of Bengal, 1880-1989*, New Delhi, 1978, pp 151-55.
 - 23 Cited in *The Bengalee*, April 26, 1873.
 - 24 See extracts from *Marshidabad Patrika*, *Dacca Prakash* and the *Education Gazette* in April 1875, RNP Bengal.
 - 25 See Philippa Levine, *Victorian Feminism, 1850-1900*, London 1987, pp 128-43. Also see Holcombe, *Wives and Property—Reform of the Married Women's Property Law in 19th Century England*, Oxford 1983.
 - 26 Markby, op cit, p 100.
 - 27 Mendus and Rendall (eds), *Sexuality and Subordination, Interdisciplinary Studies of Genders in the 19th Century*, RKP, 1989, p 133.
 - 28 See also Holcombe, *Victorian Wives and Property: Reform of the Married Women's Property Law, 1857-82* in Martha Vicinus, *A Widening Sphere: Changing Roles of Victorian Women*, London.
 - 29 Markby and Sripati Roy, op cit.
 - 30 *The Amrita Bazar Patrika*, February 4, 1873.
 - 31 *The Hindoo Patriot*, August 16, 1887.
 - 32 *The Amrita Bazar Patrika*, January 28, 1875, RNP Bengal, 1875.
 - 33 See Sumit Sarkar, 'The Kalki—Avatar of Bikrampur: A Village Scandal in Early 20th Century Bengal' in Ranajit Guha (ed), *Subaltern Studies VI*, Delhi, 1989.
 - 34 See Tanika Sarkar, Nationalist Iconography.
 - 35 *Report of the Age of Consent Committee*, 1928-29, Government of Bengal, Calcutta 1929. For some statistical observations on this matter, see pp 65-66.
 - 36 Kamlakanter Daptar.
 - 37 Tanika Sarkar, *Bankimchandra and the Impossibility of a Political Agenda: A Predicament for 19th Century Bengal*, NML Occasional Papers, Second Series, No XL, 1991.
 - 38 *Bangabashi*, July 9, 1887, RNP Bengal 1887. For a critical discussion of such views see Rabindranath Tagore, *Hindu Vivaha*, 1294. Rabindranath, himself, in this extremely involuted logical exercise, grants a practical purpose to infant marriage purely for better breeding purposes but, in the process, Hindu conjugality is denied all effective or spiritual pretensions. *Rabindra Rachanabali*, Vol 12, Calcutta, 1349.
 - 39 Chandrakanta Basu, *Hindu Patni and Hindu Vivaha Bayas O Uddeshya*, cited in *Hindu Vivaha*, op cit, also by the same author, *Hindutva*, op cit.
 - 40 See for instance Prasad Das Goswami, op cit, Bhubaneshwar Misra, op cit, Kalimoy Ghatok, *Ami*, Calcutta 1885.
 - 41 Monomohan Basu, op cit.
 - 42 Manmohan Basu, op cit.
 - 43 *Sulabh Samachar O Kushadahe*, July 22, 1887, RNP Bengal, 1887.
 - 44 Far from invariably evoking a sense of superiority and disgust among Englishmen, the spectacle would very often arouse similar sentiments. Compare a description of a marriage procession by an English tourist with our earlier account: 'It was the prettiest sight in the world to see those gorgeously dressed babies...passer-bys smiled and blessed the little husband and the tiny wife'; John Law, *Glimpses of Hidden India*, Calcutta circa 1905.
 - 45 *The Hindoo Patriot*, July 25, 1887.
 - 46 Ibid; August 16, 1887.
 - 47 Ibid, September 12, 1887.
 - 48 Ibid, August 1, 1887.
 - 49 *Surabhi O Patrika*, January 16, 1887, RNP Bengal, 1887.
 - 50 Nistarini Devi, *Sekaler Kutla*, first published serially in *Bharatharsha* between 1913-14. Jana and Sanyal (eds), *Atmakatha*, Calcutta, 1982, p 11.
 - 51 Chandrakanta Basu, op cit.
 - 52 *The Hindoo Patriot*, September 19, 1887.
 - 53 Cited in *The Hindoo Patriot*, ibid.
 - 54 *Dainik O Samachar Chandrika*, June 22, 1857. Also *Dacca Prakash*.
 - 55 *Bardhaman Sanjivani*, July 5, 1887, RNP Bengal, 1887.
 - 56 *Dhummketu*, July 4, 1887, RNP Bengal, 1887.
 - 57 *Sambad Prabhakar*, June 30, 1887, RNP Bengal, 1887.
 - 58 *Bangabashi*, June 25, 1887, RNP Bengal, 1887.
 - 59 *Nababibhakar Sadharani*, July 18, 1887, RNP Bengal, 1887.
 - 60 *Dacca Prakash*, June 8, 1875, RNP Bengal, 1875.
 - 61 *Education Gazette*, May 11, 1873, RNP Bengal, 1873.
 - 62 Ilcimsath, op cit.
 - 63 Bengal Government Judicial J C/17/, Proceedings 96-102, 1892, Nos 101-02. File J C/17-5. Honourable justice Wilson's charge to jury in the case Empress vs Main Mohan Maitee, Calcutta High Court. Report sent by Arcar, Clerk of the Crown, High Court, Calcutta, to officiating chief secretary 90B, No 6292-Calcutta, September 8, 1890.
 - 64 See Rajat Kanta Ray.
 - 65 Bengal Government Judicial NF J C/17/, Proceedings 104-17, June 1893. From Simmons, honorary secretary, Public Health Society of India to chief secretary, Government of Bengal, Calcutta September 1, 1890.
 - 66 Ibid, C C Stevens, officiating, chief secretary 90B, to secretary, home department, Government of India, Darjeeling, November 8, 1890.
 - 67 Letter from Simmona, op cit.
 - 68 Bengal Government Judicial, J C/17/, op cit.
 - 69 Bengal Government Judicial, NF J C/17/, op cit.
 - 70 *McLeod's Medical Report on Child Wives*, Bengal Government Judicial, ibid.
 - 71 Ibid.
 - 72 Ibid.
 - 73 *The Bengalee*, March 21, 1891.
 - 74 Dagmar Engels, op cit.
 - 75 *Surabhi O Patrika*, January 16, 1891, RNP Bengal 1891.
 - 76 *The Bengalee*, March 21, 1891.
 - 77 *Dainik O Samachar Chandrika*, January 14, 1891, RNP Bengal, 1891.
 - 78 *Nabayug*, January 15, 1891, RNP Bengal, 1891.
 - 79 *Dainik O Samachar Chandrika*, April 15, 1896, RNP Bengal, 1891.
 - 80 *Nabayug*, op cit.
 - 81 *Bangabashi*, March 21, 1891, RNP Bengal, 1891.
 - 82 Ibid.
 - 83 See Amiya Sen, op cit.
 - 84 Mentioned in *The Bengalee*, March 7, 1891.
 - 85 *The Bengalee*, February 28, 1891.
 - 86 Ibid, March 21, 1891.
 - 87 *Bangabashi*, March 28, 1891.
 - 88 Ibid.
 - 89 *Dainik O Samachar Chandrika*, January 15, 1891.
 - 90 *Bangabashi*, December 25, 1890.
 - 91 *Dainik O Samachar Chandrika*, January 14, 1891.
 - 92 Ibid, January 11, 1891.
 - 93 Ibid.
 - 94 *The Bengalee*, July 25, 1891.

Policies, Paradigms and Development Debate at Close of Twentieth Century

Sudipto Mundle

Economics of development emerged in a milieu of market failures following the great depression and new deal of 1930s when societies in the east as well as the west and the north as well as the south embraced the idea of the interventionist state. It is now generally recognised that apart from making macro-economic stability, governments in developing countries must intervene in sectors like health care, education, infrastructural development and conservation of environment.

This paper takes stock of what the developing countries have learned from experiments with interventionist policy and discusses some crucial issues in the development debate, namely, the role of the state vis-a-vis the market, agriculture versus industry and import substitution versus export-led growth.

IN a few years from now we will have reached the end of the 20th century. A number of post-colonial societies, including India, will also be soon completing their first half century of planned economic development as independent nation states. It is, therefore, time to pause and take stock of what we have learned about the process of development.

The evolution of economic development theory during these past 50 years makes a fascinating study in the interaction of events and ideas. The 1950s and early 1960s have been described as the years of high development theory [Krugman 1992]. It is interesting to note the historical circumstances immediately preceding this period. They give us a clue to the emergence of development economics within the short span of a few years as an exciting new branch of economic theory, characterised by a degree of self-confidence almost verging on rashness

I

The great depression marked a major turning point in the progress of material conditions not only in the industrialised countries but also in large parts of the rest of the world. The countries of Latin America in particular had been strongly articulated with the industrialised countries through trade relations. They exported agricultural products and minerals and in return bought manufactured goods to meet consumption requirements at home since the growth of domestic industry had been limited. After 1929, the collapse of economic activities at the centre of world capitalism and the consequent steep decline in the terms of trade facing these raw material suppliers in the periphery led to huge losses of output and employment in these Latin American countries. The loss of foreign exchange earnings also made it impossible for them to continue importing manufactured goods to meet their con-

sumption requirements. As a consequence, governments in most of these countries had to engage in large scale economic intervention, partly to arrest the decline in prices and incomes in the primary producing sectors and partly to initiate import substituting industrialisation as it was no longer possible to meet domestic requirements through imports from abroad [Furtado 1976 and Bagchi 1982].

Further north in the US the vast programme of public works and other activities initiated by the government under the New Deal had turned the US economy around from the depths of depression and high unemployment to a period of long recovery. Later public action under the Marshall plan had helped to pull the countries of western Europe out of the destruction and dislocation of the second world war and launched them into what turned out to be the longest period of high growth in this century. Further east, the Soviet Union and its allies in eastern Europe were still perceived as being highly successful in catching up with the market economies of the west on the basis of an alternative command system and centralised planning.

It was a milieu in which market failures loomed large. Societies in the east as well as the west and in the north as well as the south embraced the idea of an interventionist state. It was against this background that economic theory witnessed the emergence of a new branch called the economics of development, characterised by the seminal contributions of Arthur Lewis (1954), Ragnar Nurkse (1952), Paul Rosenstein Rodan (1943), Richard Hicks (1955) and many others. Their theories were very often cast in the language of the marginalist tradition which had come to occupy the centre stage of economic theory. Thus in her review of development theory Bharadwaj (1991) described these contributions as belonging to the neoclassical paradigm which she calls demand supply equilibrium theory. At one level these

theories were indeed cast in the mould of markets, prices and allocative efficiency. They were concerned with endowment rigidities, externalities, market imperfections and price distortions. The policy implication was that the government should intervene in order to 'get prices right'.

At another level, however, coming as it did in the shadow of Keynes [Toye 1987], this new literature of development economics quickly merged with the new post-Keynesian theories of accumulation, distribution and growth. The questions they asked and the answers they arrived at were, however, not entirely new. Arthur Lewis is undoubtedly the leading exponent of this branch of economics. His dualistic model and the strategic relationships which it identified had already been largely anticipated in Preobrazhensky's theory of primitive socialist accumulation in the context of the Soviet industrialisation debate [Mundle 1981]. Preobrazhensky in turn had drawn his ideas from the theory of primitive capitalist accumulation in Marx's model of the process of the first industrial revolution in England [Preobrazhensky 1926 and Marx 1894]. Though he had a number of difficulties with some of Marx's propositions, Lewis himself explicitly recognised the classical roots of his theory. Thus, analytically the economic theory of development which emerged in the 1950s was really an extension of the surplus based theories which Chakravarty (1982) has described as the Marx-Schumpeter approach, as distinct from the Mill-Marshall approach.

In the sphere of economic policy this second layer of development theory provided the intellectual foundation for widespread government intervention, restriction of the market mechanism, and government controlled allocation of investment funds in accordance with a comprehensive economy wide plan of production. Indian planners like Mahalanobis, Pitambar Pant and Chakravarty were leading contributors to these exercises in de-

development planning [Chakravarty 1987]. Though at the formal analytical level, these exercises bore a resemblance to comprehensive planning based on material balancing in the Soviet economy, the policy instruments employed for implementing such plans in India and many of the other developing countries were quite different from those employed in the command economy of the Soviet Union. Nevertheless, the consequences of such widespread state intervention in the developing countries was, in a qualitative sense, not very different from that in the centrally planned economies. The differences have been more of degree rather than substance. They may not have been so severe as to lead to total collapse, as observed in the former USSR and other east European countries. However, the adverse effects of such indiscriminate intervention have been quite severe as we know from our own experience here in India. These were once described by finance minister Singh in the following words:

...It ought to be pointed out that those who argue in favour of planning are implicitly assuming that the state is a custodian of public interest. In addition, they are also assuming that public authorities have on the whole superior information and knowledge of issues having a bearing on investment decisions... It must be frankly admitted that in many developing countries these conditions are not always satisfied. It is futile to expect rationality or optimality of investment decisions in a situation in which those who control the machinery of the state use it for their personal or group aggrandisement. Where there is rampant corruption in public services, the information available to the public authorities is also likely to be fouled. It thus needs to be emphasised that successful planning assumes a high degree of integrity in public services and political leadership. In addition, the success of planning depends on the technical competence of the administrative machinery, its capacity to anticipate events and take necessary corrective action fast enough. For this purpose, among other things, it is essential that those who make crucial economic decisions should be secure enough to take a fairly long view of the economic processes. Political instability or insecurity of tenure can have a highly destabilising effect on the quality of economic decision making processes... [Singh 1986].

Singh went on to describe in the same lecture the persistent failure of most public enterprises to generate surpluses, thereby placing the entire decision process under great pressure. He also refers to the inefficient licensing restrictions used to guide private investment, the quantitative restrictions on trade and the excessively high tariff barriers, all of which have led to unnecessary distortions, a high cost structure, the frittering away of scarce

resources through inefficiencies in the system and the consequent shortage of resources for promoting rapid growth.

The above description could apply to a large number of developing countries which adopt a strategy and policy of development similar to ours and in this regard the Indian experience is fairly representative. The adverse experience of indiscriminate state intervention in these countries, combined with failure of the command system in centrally planned economies, led to a great deal of disillusionment with the development economics which had provided the theoretical underpinning for such policies and strategies. The conservative critique of development theory, led by Harry Johnson (1971), Bela Ballasa (1971), Peter Bauer (1972), Little (1982), Deepak Lal (1983), and others now appeared to be a triumphant counter-revolution. It was reinforced by a great deal of new theorising on the rent seeking behaviour of government agents [Krueger 1974] and the behaviour of government itself, which we may describe as the theory of government failure [Buchanan and Tullock 1962; Colander 1984 and Olson 1982]. By the beginning of the 1980s Albert Hirschman (1981), one of the pioneers of the field, was himself writing about the decline of development economics.

The conservative critique did not of course go unchallenged. In the domain of economic theory early development theorists like Arthur Lewis (1984) were writing about the continuing relevance of a theory which addressed itself to the *differentia specifica* of the developing countries. However, the main response came in the form of new developments in economic theory during the 1980s. Like the earlier Keynesian revolution, these new developments have appeared not on the basis of an alternative paradigm but as a challenge to the neoclassical paradigm from within. Important insights and new tools of analysis originating from the literature on industrial organisation have led to new theorems which have revolutionised both public economics and the theory of international trade.

Exceptions to the fundamental theorems of welfare economics had of course been recognised at least since the time of Pigou (1926). The existence of externalities call for some intervention by way of taxes or subsidies to make the choices of private agents consistent with social optima. The theory of public goods following Samuelson (1954) also established that in the case of some goods and services, characterised by non-competitiveness in consumption and non-excludability, public provision of such services would be necessary. Interventions were also called for in the case of natural monop-

lies. These, however, were seen as exceptions to the general principle that non-intervention with the market mechanism was the best policy.

In contrast the new results strike at the very roots of the theory that market outcomes are socially optimal. The two fundamental theorems of welfare economics maintained, first, that under certain conditions, which we may for convenience describe as an Arrow-Debreu world, market outcomes would be Pareto efficient and, second, that any Pareto efficient point on the utility possibility frontier could be attained through the market mechanism with an appropriate initial distribution of endowments between agents. However, the Arrow-Debreu world implies a set of highly restrictive conditions. The new results establish that once these restrictive assumptions are relaxed, the market efficiency theorems break down, i.e., if there are incomplete markets for risks or missing future markets or imperfect information, conditions which are fairly typical and general, the market solutions need not be Pareto optimal [Stiglitz 1992]. Similarly, in the field of international economics the new strategic trade theory demonstrates that once we allow for increasing returns or market imperfections and the role of history (initial conditions), free trade would not in general be the optimal policy [Helpman and Krugman 1985]. These results go far beyond earlier theorems on the possibility of factor intensity reversal, learning effects and second best theory which allowed for some exceptions to the rule that free trade is the optimal policy.

This counter-counter-revolution in development theory [Krugman 1992] has been considerably reinforced by the dramatic success of countries like Japan, Korea, etc., which have been characterised by highly interventionist regimes [Okita 1980 and Dutta Chaudhury 1981]. The theory of government failure has obviously found it difficult to deal with this east Asian experience.

These new developments in neoclassical theory have also seen parallel developments in alternative paradigms, in particular some strands of Marxist economic theory and structuralist theory which attempt to come to terms with the actual historical experience. As a consequence, some scholars have noted a tendency towards convergence of views across paradigms in the field of development theory [Bardhan 1988 and Dutt 1992]. The emerging consensus recognises elements of both market failure as well as government failure and focuses on questions about the condition under which one would outweigh the other.

In the realm of policy also there is a growing and healthy impatience with ide-

ology-driven prescriptions of either the interventionist variety or the free market variety. Competent policy advisors are now inclined to focus on the appropriate combination of markets and state intervention [World Bank 1991a and 1991b]. It is now generally recognised that apart from maintaining macro-economic stability, governments in developing countries must also strongly intervene in sectors like health care, education, development of physical infrastructure such as roads, transportation, power and communications as well as anti-poverty programmes and protection of the environment. Informed debate now focuses not on whether the government should intervene but on what forms of intervention would minimise the combination of both government failure and market failure such that social objectives can be achieved at minimum social cost.

There is probably less agreement on the question of industrial policy. Strategic trade theory establishes that free trade is not necessarily an optimal policy. However, there are as yet very few results by way of general principles as to what form of industry and trade policy may be optimal. Researchers in the intersection between theory and empirical experience are now searching for possible patterns and clues as to what makes for industrial success in the developing world. Attention has been focused on issues of incentives, the development of capabilities and creation of appropriate institutions [Lall 1991]. They have also focused on the problems of co-ordination and information, dynamic comparative advantage and the choice of effective policy instruments such as strategic government financing of private investment [Dutta Choudhury 1990 and Bardhan 1991]. One important inference now emerging is that in the field of industrial policy government intervention works best when it tends to support rather than supplant the market [Dutta Choudhury 1990].

II

The foregoing discussion has so far focused on one major aspect of the development debate which has come to the fore in recent years, namely, the role of the state *vis-a-vis* the market. We may now briefly turn to two other important aspects of the development debate, namely, agriculture versus industry and import substitution versus export led growth. It is appropriate to discuss both these questions together because they are in fact two aspects of the same question.

The historical record shows that outwardly oriented economies tend to do well during a period of dynamism and high growth in the world economy whereas they are prone to severe dislocation and

collapse during a downturn in international economic activity. Reference has been made earlier to the experience of the export oriented economies of Latin America where economic activity was severely disrupted leading to huge losses in output, employment and standards of living following the great depression of 1929 [Furtado 1976]. Conversely we now have the dramatic experience of extremely successful export led growth in the economies of east Asia, riding on a great boom of world economic activity from the 1950s onwards. In other words, the question of whether a policy of export led growth is likely to succeed or not cannot be context free. When the tide of international trade is rising export led growth strategies are likely to work well. In a period of decline internally oriented economies are likely to be less damaged by the stagnation or slow down in world trade.

In any case, the perceived opposition between export led growth and a growth strategy focusing on the domestic market is probably misplaced, except in the case of primary producing countries where growth may be led exclusively by the export of minerals or agricultural products. Once we move beyond this narrow range of activities and consider the export of manufactures, or even the export of processed primary products after value addition, it will be evident that the export of these products would only be sustainable when comparative cost advantage is established. Typically, these are established only when there is prior development of an adequate production base on the basis of a home market. Thus, the real issue on the question of inward versus outward orientation is not a matter of comparing alternative strategies but establishing the appropriate sequences of a single strategy.

Seen from this perspective, it is evident that development policy cannot ignore the question of the home market, except under circumstances peculiar to primary exporters controlling strategic products, such as the oil exporting countries of the middle-east. Once this is recognised, it is not difficult to see that industrialisation can only be sustained on the basis of a prior or simultaneous revolution leading to sustained productivity increases in agriculture. This theme of a necessary balance between industry and agriculture is one of the early insights of classical political economy going at least as far back as Adam Smith (1776). It has been frequently restated during the past two centuries, most transparently by Arthur Lewis in his celebrated Janeway lecture on the evolution of the international economic order [Lewis 1977].

In a closed economy, if other constraints are not binding, the size of the sustainable

non-agricultural workforce will be determined by the surplus of food production in agriculture over and above the requirements of the workforce in agriculture. Hence the size of the workforce in non-agricultural economic activities can grow, relative to that in agriculture, only when there is rising labour productivity in the agricultural sector. Similarly, in the presence of surplus labour, the operation of the labour market establishes a functional relationship between the floor real wages in the non-agricultural sector, hence the entire real wage structure of the sector and labour productivity in the agricultural sector. Over the long run, therefore, standards of living in the economy as a whole will ultimately depend on the productivity of labour in agriculture.

It may appear that this balance is broken once the economy is opened up, since manufactures can then be traded with food produced in the rest of the world and that the industrial sector is freed from its dependence on domestic agriculture. In fact, such independence appears only after an economy is sufficiently industrialised so as to establish its comparative cost advantage for some manufactured products *vis-a-vis* the rest of the world. However, it has been pointed out earlier that for this to happen there must be a prior development of industry based on the home market. Hence the relationship of balance between agriculture and industry which must exist in the context of a closed economy also operates in the early phases of industrialisation in the context of an open economy.

The necessary balance between agriculture and industry implies that industrialisation, even if it is of the export led variety in its later phases, has a prior dependence on the conditions which govern the progress of agriculture. These include not only the natural endowments of a country but also the technology employed in agriculture and the incentive structure of agrarian relations. It is one of the well established lessons of history that successful industrialisation has almost always been crucially dependent on the extent to which agrarian relations are conducive to the development of agriculture [Mundle 1985 and Breman Mundle 1991].

Finally we may briefly refer to the relationship between democracy and development. In recent years there have been references to the proposition that in developing countries economic liberalism is not compatible with political liberalism or that there is a trade off between democracy and development. These propositions are of course not equivalent but they do suggest that a hard state is a necessary condition for development. This is a curious proposition since recent history is replete with examples of a disastrous de-

development record in many countries under dictatorship or totalitarian rule in Latin America, Africa, eastern Europe and the former Soviet Union, just as there are examples of successful economic performance under non-democratic regimes, particularly in Asia.

In a recent discussion [World Bank 1991a] Amartya Sen argued that if the measure of development is broadened to include, besides per capita income, such indicators as the expectation of life, mortality, morbidity, literacy, etc, which reflect the development of human capability and well-being, democracy may in fact be seen as a necessary condition for successful development. Clearly the notion of democracy in these two views are quite different. The democracy referred to by Sen is evidently democracy of the kind where there is grass roots level empowerment of ordinary people within established democratic institutions and public opinion counts in determining public policy. The concept of democracy which is incompatible with development is presumably the pork barrel politics of special interest groups and coalitional politics. Under such regimes it is only the narrow but well organised social groups belonging to the ruling coalition who drive public policies [Olson 1982 and Bardhan 1984]. If there is a particular group with decisive power within the coalition, such a group may be able to enforce a viable development policy at some costs to the other groups and the rest of society in the short run. We then have a case of successful authoritarian development. Where no group within the coalition is sufficiently powerful to impose its will on the rest, we have a case of arrested development trapped in a political gridlock [Mundle 1991].

At the end of the day what development requires is good governance and public intervention which supplements rather than supplants the market mechanism. This is not a new discovery. The principle had already been recognised by the author of the *Arthashastra* hundreds of years ago as one of the necessary conditions of successful statecraft. Let us give the last word to Kautilya:

In the interests of the prosperity of the country, the King should be diligent in foreseeing the possibilities of calamities, try to avoid them before they arrive, overcome those which happen, remove all obstructions to economic activity and prevent loss of revenue to the state [Rangarajan 1992:116].

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Of Communal Consciousness and Communal Violence

Impressions from Post-Riot Surat

Sudhir Chandra

It is not easy to offer generalisations about the way Hindus behaved during the communal riots and how they will behave in the foreseeable future. The exercise acquires an extra complexity if the speculation sought on the basis of behaviour during these difficult times relates to the future of BJP in the Indian political system, for the exercise necessarily involves projection about the likely electoral behaviour of people.

I

FOLLOWING the demolition of Babri Masjid on December 6, 1992, Surat witnessed some of the most gruesome manifestations of communal violence. Recurring a month later, in January, this violence was marked by a ferocity and traits that even areas traditionally prone to communal disturbance could scarcely match. This happened in a city that had, for decades, taken pride in the peaceful coexistence of its religious communities. More and more cities and towns in Gujarat had, since the country's partition and independence, fallen prey to communal violence which, at least since 1980, seemed to find its preferred habitat in Ahmedabad and Baroda, the state's prime cities. All this while Surat, the chief city of south Gujarat, remained an oasis of communal peace.

The oasis was then abruptly transformed into a microcosm of communal India. For the first time in its history since 1927-28, the city experienced communal rioting. Arson, loot, physical assault and killing, rape, destruction or desecration of places of religious worship, nothing from the repertoire of communal violence was missing in this orgy. The victims of rape were exclusively Muslim; and the community also suffered preponderantly—realistic estimates ranging from 90 to 95 per cent—in cases of arson, loot, injuries and loss of human lives. Mosques alone were destroyed or defiled.

The death toll was estimated by government agencies to be in the vicinity of 200; and they do tend to underestimate. More than 19,000 women, children and men—almost all of them Muslims—sought shelter in 43 relief camps. Such for them has been the trauma of the December terror that many of them have not to date returned to their homes in localities where unprecedented brutality was let loose upon them. (Neither government officials nor voluntary organisations active during relief operations have much idea of the number of such people and of the places where they have gone after the relief camps were wound up.)

In December, as if driven to make up for the time lost owing to its long peaceableness, Surat took to communal violence with a vengeance. In the process it sharpened the distinction that marks ordinary criminal violence from communal violence (which does not, on that count, cease to be criminal). The latter, unlike the former, is often converted into a spectacle. Depending on the degree of communalisation within the society, it is valorised by larger or smaller sections of the concerned communities.

While there were the usual hit-and-run assaults, at times Hindu rioters' activities in Surat looked like rituals. When that happened, despite the bustle of mob frenzy, violence was marked by a sinister elaborateness. The arson they indulged in then resembled the community bonfire organised on the occasion of the Holi festival. It bore an even more bizarre resemblance—one with sacrificial 'yajnas'—as some of the rioters threw into the rising flames, as oblation, live human beings, including children. A display was made of the raping of Muslim women and girls, and there were instances in which the ritual concluded with the killing of the victim, or with the insertion of rods into her vagina and anus. Nor were the killings effected by the rioters always simple, quick operations. The victims at times were made to utter 'Jai Shri Ram'—the war cry of Hindutva—before being hacked to death or burnt alive. This, for example, is what the rioters in one of the worst affected localities did to a Muslim priest; whereafter they got hold of his young wife, who had always lived in purdah, and gang-raped her.

Recourse by rioters to paraphernalia suggestive of sacrificial rites betrays strong links between the Hindus' communal violence and a view of their past in which the Muslim figures as the destroyer of their country and the defiler of their religion. As never before, the rioters' actions reflected a striking correspondence with the abstractions of the high priests of a certain kind of Hinduism. I am here not referring to the vulgar fire-spitting demagogues,

like Uma Bharati and Sadhvi Ritumbhara, whom Hindutva has thrown up recently. The rot has spread wider. I have in mind a more disturbing representative figure: Swami Chinmayananda, whose lectures on the *Gita* have won him an impressive following among the urban literati. Talking veritably like he was Lord Krishna discoursing to a wavering Arjun on the eve of the Mahabharata war, Chinmayananda appreciated not only the kar sevaks' vandalism in Ayodhya but also its aftermath of killing. "Sacrifice", he harangued "is unavoidable to create anything". Suggesting for the Muslims a way out of the 'sacrifice' of being done to death by the Hindus, the Swami added: "Let the government make the Muslims understand that they will have to make the sacrifice" (*The Times of India*, Bombay edition, January 8, p 11). The alternative sacrifice suggested by the Swami is that the Muslims should reconcile themselves to Ayodhya and hand over to the Hindus the structures being claimed by them in Mathura and Varanasi.

Events in Surat, thus, reflect a disturbing approximation between the manifestation of communal violence and the enunciations of the relatively less rabid ideologues of Hinduism. Hindu communal violence in Surat seems to have made another alarming contribution to the escalation of communalism. It broke a crucial psychological barrier that had hitherto divided the physical perpetrators of communal violence from those who verbally justified or even abetted it.

Following this division, once communal violence broke out, the Hindu middle classes' reaction would be one of reluctant approbation. Usually prefaced with regret about the incidence of violence, it would proceed to justify violence as a necessary lesson that, having been harassed and harried in their own land, the Hindus felt compelled to teach the 'others'. Over the last couple of years the proportion of regret decreased dramatically; what has replaced it is unalloyed approbation, *a la* Chinmayananda. The actual work of administering the 'lesson', during all these long

years, was the prerogative of the underclasses of the community.

In Surat a new low was registered in the Hindu middle class association with communal violence, as well-off men and women joined in the looting of Muslim shops. While the riots were on, stories began to circulate of middle class men and women in their Maruti cars defying the curfew and returning home with the choicest booty. Women, the stories said, ransacked Muslim shops to pick up saris that matched their blouses and blouse-pieces that matched their saris. They helped themselves to the finest jewellery, including rings that fitted their fingers. 'Respectable' people drove to Muslim shoe shops to try and take away shoes and chappals of their choice.

That these stories may be exaggerated is their least important part. What is worrying is that the exaggeration rests on actual cases of middle class participation in an aspect of communal violence from which they had hitherto kept aloof. However, limited the participation, it can hardly be dismissed as an ugly aberration; one that, even if not repeated in Surat, would also not infect middle class behaviour elsewhere in the country.

At the level of actual physical participation, one fears, future eruptions of communal violence may involve larger segments of the community across class and gender divisions. Put differently, the breaking of the psychological barrier implies a qualitative lowering of the middle class Hindus' threshold of resistance to communal violence.

The savagery of December and January in Surat, then, means more than the transformation of an oasis of communal peace into a microcosm of communal India. It threatens to be the portent of a fall into further depths.

No one familiar with the history of Surat would argue that it has been free from communal consciousness. But the city had evolved a social anastomosis that enabled strong communitarian identities, with their separate interests and socio-religious peculiarities, to exist within a subtly changing social equilibrium without needing to resort to violence against one another. Recent rioting and, even more, its extraordinary ferocity and ritualism brought about the collapse of the defences which had earlier prevented the resolution of the city's communal tensions by means of violence.

The fear that Surat marks an ominous portent is confirmed by developments in other parts of the country. Within three months, for example, the suddenness of Surat's descent into communal barbarity was replicated in an area where Hindu-Muslim violence was even less likely to flare up than in Surat. So completely unanticipated, in fact, was this particular eruption that when, with the usual ambi-

guity of reporting that is supposed to forestall a chain reaction, to newspapers reported the April killings in Manipur, most people assumed that tribal terrorism must have struck again. It took the country two days to discover that, for the first time in its history, Manipur had been gripped by Hindu-Muslim violence.

It is possible to offer for such events explanations that highlight the role of non-communal causation. The massacre in Manipur is, thus, said to have been actuated by a dispute between a new terrorist outfit and some Muslim dealers in contraband arms. But that cannot explain the ease with which a whole range of conflicts can be passed off as fights involving Hindus and Muslims as antagonistic communities, and used to whip up communal frenzy. For, before anti-social or cynically single-minded political elements can step in to exploit communal antipathies for their own ends, they must feel assured of the gullible readiness of the potential antagonists to be driven into limitless cruelty. Communal violence would not otherwise degenerate into a bizarre spectacle.

Nor would it so easily embrace sections of society that it does if material factors always, and at all levels, possessed the efficacy that is implicitly ascribed to them in explanations that privilege non-communal causation. Thus, like Bombay around the same time, Surat saw significant dalit participation in the riots. As sections of dalit underclasses played an active role in the violence, some dalit writers and intellectuals in the city issued statements hailing Hindu fundamentalism.

Already a few progressive dalit intellectuals are trying to explain dalit participation in the Bombay riots in terms of compulsion as against conviction. They are seeking, moreover, to highlight the fact that it was the matangs and chamars, not the politically more aware mahars, who joined in the fray. Apart from the obvious difficulties of making a distinction between compulsion and conviction for analysing such volatile and complex situations, these explanations fail to account for the fact that in the entire Marathwada region—the heart of dalit consciousness and achievement—where the mahars reign supreme—no eminent dalit came out to denounce the violence against the Muslims.

Another disturbing feature of the Surat riots, which too is shared by Bombay, pertains to the role of neighbours. For the first time, perhaps, in the history of communal violence in the Indian sub-continent, vicinities were betrayed by their neighbours from the other community. Worse still, cases have been reported of neighbours who took part in actual violence. Consequently, neighbourhoods in the communally more sensitive parts of the city are tending to become exclusively Muslim or Hindu. The

use of paths leading from main roads into adjacently situated Muslim and Hindu neighbourhoods is reported to be acquiring a communal character; people belonging to one community would rather take a longer detour than risk passing through a locality housing the other community.

II

No one suspected till the very last that Surat would be seized by such violent frenzy. Over the decades, even as they would apprehend communal riots at the slightest pretext in different parts of Gujarat, people got progressively convinced that, whatever happened elsewhere, Surat would remain peaceful. From its history of communal harmony to its demographic composition and the nature of its communally inter-textured business nexus, a whole variety of reasons would be advanced by lay citizens and experts alike for the city's immunity to communal violence. Even the stereotyped image of the average inhabitant of Surat—the happy-go-lucky 'Surati lala'—was perceived as an insurance against the outbreak of communal violence. In fact, in popular memory the city was remembered as having forever been free from any kind of group violence. Let alone the disturbances of 1669 and 1795, even the riots of 1927-28 did not figure in the Suratis' collective cognitive map.

The worst then happened in this bastion of peace. Overnight, literally, what needed to be explained was not the city's immunity but its vulnerability to communal violence.

There is an aspect of these explanations which helps us place in some kind of a perspective the savagery of December and January. The stress in the preceding narrative on the representative and portentous character of the Surat violence needs to be balanced by an account of developments that seems to offer a modicum of hope. For, the overall situation is quite complex and people's attitudes betray a measure of unresolved tensions and ambiguities. This is best revealed in the Suratis' determined refusal during the first phase of rioting to implicate themselves. They argued, and seemed desperate to believe, that the violence was organised and committed by 'outsiders'. These outsiders were not all non-Gujaratis. Besides the migrant industrial workers from Orissa, Bihar and UP, the perpetrators of violence included a large chunk of Saurashtrian migrants. As for the middle class involvement in looting, the accusing finger was, again, pointed towards outsiders, particularly Punjabis. These migrants had damaged the general atmosphere in the city. But the Surati had valiantly stood by his/her tradition.

Another explanation that served a similar function found a scapegoat in the city's

police commissioner, P K Datta. Within less than two months that he had been in charge of the city, Datta had come down heavily on the bootleggers who, in collusion with the police, had been carrying on a lucrative business. So complete had been Datta's drive that women engaged in bootlegging were, with unmistakable exaggeration, said to have been forced into prostitution for a living. The drive created two disgruntled elements: the unemployed bootleggers and the police deprived of their regular commission from the illicit trade. The demolition of Babri Masjid came as a god-send to the bootleggers who, given their penchant for criminal activities, organised anti-Muslim riots; and the police force refused to obey the orders of a chief who had deprived them of a rich source of income. The two conspired to create a situation in which their *bete noire* would be transferred from Surat.

Widely believed in Surat, this explanation was invested with further credibility following its publication in *India Today* (Gujarati edition, January 6-20, pp 42-44). The need to believe it, and get rid of guilt, was so deep that people completely ignored that, given the state's venal political leadership, vested interests did not need to cause diabolic disturbances to bring about an honest officer's transfer. They also ignored the question as to how the underworld dons could ensure the frenzied participation of so many people in the communal orgy.

This guilt was neither squarely faced nor consciously exorcised. And, however, deviously suppressed and indirectly felt, guilt was not the only feeling entertained with regard to the riots. It was related to a complex structure of feeling produced by the events in Ayodhya. There was a widely shared sense of shock and disbelief when the news first came of the demolition of Babri Masjid. But, for a variety of reasons, including the sympathy that by its inept handling the government of India restored for the Hinduva combine, the realisation that something ugly was happening in their city was accompanied by a resurgence of enthusiasm for Hinduva. The latter may not have completely overpowered the former. But it permitted a different look at the local barbarity.

A very persuasive factor was found for the different look. The riots were seen as a reaction to the aggressiveness of the local Muslims in the wake of the demolition in Ayodhya. To illustrate the pervasiveness of this belief I shall quote from one of the earliest reports that appeared on Surat riots. It was written by a well known political scientist of Gujarat and carried by the *Economic and Political Weekly*, (January 30, pp 151-52). The credentials of both the author and the journal are

above board. Explaining the outbreak of the riots, the author wrote:

When the minority over-reacted on the night of the 6th, the majority backlash was predictable as almost a reflex action (p 152).

Another analyst, with even more impeccable credentials, writes in a similar vein about the beginning of the riots:

The demolition of the mosque was a violation of the sacred space/symbol of Muslims. There was spontaneous outburst of their anger and frustration which was aggravated by the Surat Bandh call given by Mahmood Pardeewala who heads Bharatiya Minority Suraksha Sangh... This was responded to by sections of Hindus from the 7th to the 10th with a ferocity unheard of till then. (Lancy Lobo, 'Communal Violence in Surat City', *Social Action*, April-June, p 144.)

The whole question of backlash is related to a particular view of the historical relationship between phenomena that are, significantly, described as Muslim communalism and Hindu/Indian nationalism. According to this view, the Muslim has always been the aggressor and the Hindu has always felt driven to react; maybe of late with a ferocity missing earlier. At a deeper, and more universal, level, the question is related to the psychology that a besieged minority almost invariably develops.

That apart, I should like to draw attention to the wide hold exercised by such historical stereotypes. For one, the Surat riots are perceived as a Hindu reaction to Muslim action even by scholars who are not Hindu communalists—one of them is a Christian priest. This view, further, exists in spite of the assertion that these riots were pre-planned. If they were pre-planned, how did it matter whether the Muslim reaction to the Ayodhya vandalism was restrained or exaggerated? The chronology of Hindu violence, in fact, belies the theory of Hindu reaction to Muslim action. Lancy Lobo and Paul D'Souza provide evidence that Hindus in the city struck without waiting for the Muslims to react—or over-react—when they attacked four Muslim families on December 6 and set their houses ablaze ('Images of Violence', *EPW* January 30, pp 152-54).

If serious scholars, and those who by their religious affiliation are unlikely to be tainted by Hindu communalism, fail to see through the stereotypes about Hindu behaviour, one can imagine the great comfort it must be offering to the generality of Hindus. It enables them, in the face of their undisputed implication in savage violence, to feel varying degree of guilt and yet transfer it on to the ever-obliging Muslim aggressor.

I may offer here a few illustrations of Hindu ambiguity during the tragic days of December and January. Speaking about

the riots to the correspondent of *India Today*, Bhagwati Kumar Sharma, an illustrious Gujarati litterateur and winner of the prestigious Sahitya Akademi award, expressed his anguish in a pithy question. "How can human beings," he asked, "go to such an extent?" (The Gujarati edition cited above.) Sharma also looks after the leading Gujarati daily of Surat, *Gujarat Mitra*. Under his stewardship the paper all along supported Hindutva and attacked the Muslims.

The other example comes from a very different social segment. A bearer in Surat's solitary health-food restaurant was in the midst of an animated conversation with some of his colleagues as I reached there to buy some bread. The snatch that I heard related to how politicians were making fools of both Hindus and Muslims who were senselessly killing one another. Impressed by the outburst, I asked him: "Then how does it happen that the very people you live with don't understand this and kill their Muslim neighbours?" With equal conviction, and realising no contradiction in the two statements, he explained: "You don't know, saheb. These Muslims are by nature very cruel and violent."

A young doctor at the local government hospital, who had worked zealously to attend upon riot victims, most of whom were Muslims, remarked that Muslims were prone to be violent as they ate non-vegetarian food and practised professions such as the butcher's. Similarly, at a meeting organised at the local university, a young entrepreneur suggested the spread of vegetarianism as a cure for communal violence.

Rooted deep in people's consciousness, this ambiguity is manifested in many ways. A sad manifestation of it was visible in the thinking of some professionals who were among the first to join the Communal Unity Committee which was formed to help relief operations and peace efforts. With obvious enthusiasm, which may in some cases have been informed by an all-too-human desire for publicity, they devoted their time and energies for days on end. Not a few among them believed that the Muslims really needed to be taught a lesson. In private conversation they expressed their admiration for the BJP and Hindutva.

To the same category belong many of those who braved obvious risks to help their beleaguered Muslim neighbours. For, if there were some who wrote a melancholy chapter in the annals of communal violence by turning against their neighbours, there were others whose behaviour conformed to tradition. They either offered the protection of their own homes to their Muslim friends and neighbours or helped them escape to safety. However, even such people do not necessarily take a secular stance. They even betray an anti-Muslim bias. They

reconcile the two positions by positing a distinction between the Muslims they care for and Muslims as a people/community about whom they share a stereotype that seems to have entrenched itself since the 19th century. The Muslim they know may be the very picture of human virtue; but for these Hindus such a Muslim can never be more than an exceptional figure.

III

Given this ambivalence, it is not easy to offer generalisations about the way Hindus behaved during the riots and how they will behave in the foreseeable future. The exercise acquires an extra complexity if the speculation sought on the basis of behaviour during these difficult times relates to the future of BJP in the Indian political system, for the exercise necessarily involves projection about the likely electoral behaviour of people. Instead of addressing the question directly, I shall endeavour to suggest, in the light of the preceding narrative, the likely course of relevant events.

Compared to Bombay, where the post-Ayodhya communal violence was inextricably enmeshed in the economy of real estate with its attendant mafia rivalries, Surat saw a violence that was but marginally affected by entrenched material interests. This was particularly so in December, for the recrudescence of rioting in January was taken advantage of by a speculator to clear one slum area. It is too early to assign a critical significance to this shift between December and January. But there are suggestions that, looking for new pastures after the near saturation of the slum-clearing business in Bombay, top mafia lords like Arun Gauli and Dawood Ibrahim have trained their eyes on Surat. Should this be so, and should they succeed in skewing business relations in the city, the outbreak of communal violence in the wake of Ayodhya will certainly have initiated a new and ugly phase of communal relations in Surat; and the phase would only gain in strength from the growing saffronisation of its sprawling slums.

There are, however, also indications that eruption of communal violence may not easily recur in the city again. Which means that the collapse of the city's traditional defences against the spilling out of its communal antipathy into violence may well have been temporary. Ground for this hope is provided by the way calm has been maintained during the last five months in spite of the proliferation of causes that would ordinarily have precipitated a communal confrontation. Ever since the January round of rioting ended, there have been numerous incidents of stray stabbing and assault. These did not produce any Hindu 'reaction'. Even the disfiguring of

an idol in a Hanuman temple provoked a controlled reaction which, clearly on design, did not make Muslims its target. A protest march was organised in the city. The same day, before the march could begin, a bomb explosion injured about 40 persons at the local railway station. And while the march was meandering through downtown, an irate Muslim youth, with a criminal record, killed one Hindu processionist. Neither of these incidents caused any reprisal.

It may be tempting to see the absence of Hindu retaliation in the context of the Bombay bomb blasts and argue that what happened in Surat is not exceptional. But, then these stray incidents occurred fairly regularly before the Bombay explosions. If calm was still maintained, it cannot be ascribed to the deterrence supposedly produced by the Bombay bomb blasts.

It seems reasonable to assume, instead, that business interests in the city have recovered from the immediate euphoria and shock of the riots, and realised the over-riding need for peace and order. Hindu businessmen soon got over their euphoria to grasp the meaning of an exodus from the city of its predominantly migrant labour population; an exodus that caused 85,000 tickets to be sold in a single day at the Surat railway station. Nor did Muslim businessmen take much longer to get over their shock and humiliation. Both com-

bined to contribute to the restoration of peace. And both need to maintain it.

Hindu businessmen may have suffered, as indeed they did, immense material losses as a result of the riots. But that has not alienated them from the BJP and Hindutva. Material and ideal interests are not always easy to weigh in relation to each other. The ideal interests served by Ayodhya seem to have more than compensated for the material loss caused thereby. The BJP is not, in consequence of this loss, seen as an expensive liability. In its own turn the party's local leadership has shown great concern for the city's business interests. Kashi Ram Rana, Surat's BJP member of parliament, took a delegation to Orissa in order to persuade the run-away Oriya workers to return to their city of promise, assuring them perfect safety and all facilities. Some of these workers had participated in the violence against the Muslims, and fled as they feared administrative action. Assurances by a BJP leader were all the more likely to create a favourable impression upon a workforce that had demonstrated its communal propensities.

The Surat riots, it seems, deepened sympathy for Hindutva among large sections of the city's Hindu population. The return of peace only strengthened the trend. The BJP, consequently, hardly needs further communal violence in the city. The existing level of communal consciousness

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REGISTRAR

among its Hindu inhabitants will serve its purpose. Also the personality of Kashi Ram Rana, whom the party has recently made its chief for the Gujarat state, is bound to win it more friends and sympathisers. In a society where arrogance and venality are synonymous with political power, this man has not changed his ways since he was an ordinary political worker.

There has been increasing intra-party tussle within BJP. Still its leadership compares favourably with what most other political parties have to offer. There was reason for the BJP during the last parliamentary elections to woo the voter with the slogan: 'You tried others. Try us now.' The slogan was aimed to make use of mounting despair among the Indian people. In such a situation, the qualitative difference that someone like Kashi Ram Rana offers the electorate in terms of human material may prove decisive. When a sworn enemy of BJP like Ashok Mitra is forced to concede to its leadership a difference of quality in comparison to other parties, the ordinary voter may find it hard not to be beguiled by the difference.

The BJP's gains from the riots and the peace thereafter have been earned at the cost of deepening the Hindu-Muslim divide. If ever the party really meant to create a toe-hold among the Muslims, the design would appear to have suffered a set-back. But considering its much higher other stakes in the political gamble, it cannot possibly rue whatever it has lost on the Muslim front. In fact, the loss has been more than compensated by the completion of the Muslims' disenchantment with the Indian National Congress.

The BJP does not, however, seem content with this compensatory gain alone. It has, with singular cynicism, renewed its efforts to build its bridges with the Muslims. It may not say so, but it seems to believe that the fear and despair produced among them by Ayodhya and its aftermath will incline the Muslims more than ever to consider accepting its overtures. The maintenance of peace in Surat despite an unending series of stray provocations may be seen as a move in that direction. For, consolidation of its gains among the Hindus apart, so far as Muslims are concerned, peace gives the BJP's punish-and-woo policy a semblance of chance. After all, it was after Ayodhya that the party decided to field 100 Muslim candidates in the recent West Bengal panchayat elections; of them 28 won.

While these efforts cannot be written off—their value as gestures remains in any case—they are unlikely to mitigate appreciably the general Muslim hostility against BJP. However, an occasional Muslim does trifle with the idea of buying safety through BJP. Meanwhile the hurt and

anger felt against the Congress will take long to heal; if they heal at all. But if despair can produce the wild thought of going to the BJP, it will prompt some Muslims to stick to the Congress as the lesser evil.

Facile speculations apart, it must be admitted that for a non-Muslim Indian, a Hindu particularly, it is difficult these days to establish rapport with the Muslims. As one of them put it, they have had their noses rubbed into the ground. They would rather be left alone and lick their wounds. However, from whatever one can gather from Muslim friends who still retain some capacity for trust, their dominant mental state seems to combine deep humiliation and utter uncertainty. Contradictory feelings keep coming, as if on a pendulum. In this state of uncertainty. Which ones of these feelings will stay, and what ensembles they will form is hard to predict.

In this turmoil one question assails the Muslims constantly: 'What is our place in this country?' The question recurs in many forms: 'Don't we belong here?' 'What have we done to deserve this?' 'What can we do to persuade them that we belong here?' That these questions really admit of no answer was brought home to me with a blinding clarity by an exceptionally articulate Muslim who had organised relief for riot-affected people from an area in Surat where the worst kind of ritualised violence was enacted. He reeled off various variations of the root question, and came to: 'What can we do to persuade them that we belong here?' At this point he described the rape and killing of a young Muslim school teacher. The chilling narrative ended, he added: 'Why did they kill her? She was not a Mussalman. She was in every way a Hindu.' She dressed, he clarified, like a Hindu woman, even putting on a bindi on her forehead, and observed perfect vegetarianism. Yet she was killed.

To understand the disturbing implications of this particular account, we need to recall the fate of those Jews in Hitler's Germany who, out of genuine conviction, behaved like Germans in every possible way. They fared no better than their co-religionists who, while believing that they were German, retained their distinguishing Jewish marks.

One thought that frequently occurs to Muslims in this state of impotence and confusion is that of terrorism. In 1990, when a rash of Muslim-bashing erupted in the wake of the so-called massacre of 'kar sevaks' in Ayodhya, one ran into a Muslim youth now and again who would talk of the possibility of Muslim terrorism as an answer to Hindu militancy. This time one is struck by the spread of such sentiments. Someone may talk of the possibility of Muslim terrorism, while someone else may talk pointedly of the bomb blasts and the killing of the Shiv Sena and BJP legisla-

tors in Bombay. A third may even lay stress on the lessons to be learnt from the absence of retaliation from the Hindus this time.

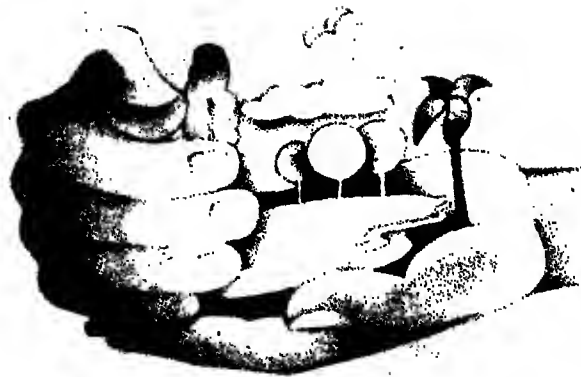
But, and this is significant, these outbursts end in speculations about the possible choices the Muslims, as Muslims, can make at the next elections. For, on the outcome of the elections, they still believe, will depend the fate of the question that plagues them most: the question of their place and their future in India.

But this is not a question that concerns only the Muslims of the country. On the answer that the Indian polity finds to this question will hang its very fate. At this level the problem that ought to engage us relates not merely to the BJP's place in the Indian political system. At stake in the present turmoil is the very conception of the Indian nation-state. A federal, plural and secular polity is sought to be converted into a regimented Hindu monolith.

In this turmoil the threat posed by the BJP is, in one sense, the most serious and brazen. For, it proposes a counter-ideology and seeks to realise it. There is also a less brazen but no less sinister threat to the polity. It operates subterraneously, eroding cherished values, political practices and institutional arrangements. So much so that today, if communalisation of politics is taken as a critical variable, very little would seem to divide most Indian political parties from the BJP. Even the United Left Front, after its long spell in power in West Bengal, is beginning to feel worried about the communalisation of its rank and file. (Some observers feel that even sections of the intermediate Left Front leadership are communally tainted.)

Let us not forget that until the very last P V Narasimha Rao was dangerously close to effecting an understanding with Hindutva. In Gujarat, to cite a similar example, Chiman Patel was obliged to do some political tight-rope walking before he decided to join the Congress as the best way of ensuring his chief ministership. With a slightly different political arithmetic in Delhi, he could well have joined the BJP. With such fluidity marking political alignments—bringing into currency a telling term like Hindutva Congress—can we possibly afford to worry only about the position of BJP in the Indian political system?

[Text presented at a seminar on 'After Ayodhya: The BJP and the Indian Political System' at the University of Technology, Perth, July 4-8. Discussions with my colleagues at the Centre for Social Studies, Surat, and with a large number of Muslims and Hindus in the city and elsewhere have contributed much to the formulation of these impressions. My thanks to all of them. Also to Hina Shah for library assistance and to K M Bhavsar and Dayanandan for typing this draft.]



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Kerala's Health Status: Some Issues

S Irudaya Rajan

K S James

TAKE away the advances Kerala made in the demographic arena the state may become an addition to the list of BIMARU¹ states in India. This is because, Kerala has made enviable progress and is being projected as a striking example for its quick demographic transition without adequate economic backing. Predominantly, in the areas of life expectancy and infant mortality, its achievements are commendable. Kerala has attained a life expectancy of 68 years for males and 73 for females in recent times as against India's figure of 56 for males and 56.5 for females [Mari Bhat and Irudaya Rajan 1990].

It has an infant mortality rate of less than one-fourth of India, which stands at 17 per 1,000 live births as of 1991. Various surveys conducted in recent times indicate the faster decline in neonatal mortality (one-month mortality) compared to post-neonatal mortality [Irudaya Rajan and Navaneetham 1993a; National Family Health Survey² 1993]. Moreover, Kerala's fertility transition has always been attributed to its very high literacy rate, especially among women and improved mortality status [Mari Bhat and Irudaya Rajan 1990].

Does this mean that Kerala's people are really healthy? At first glance the state of Kerala's health status is highly praiseworthy. However advanced the mortality indicators may be, some of the studies conducted in Kerala demonstrate a peculiar situation with a 'low mortality-high morbidity syndrome' [Panikar and Soman 1984]. Ironically, the survey conducted earlier by the National Sample Survey (1973-74) also showed that Kerala has the highest percentage of morbidity among Indian states.

The conclusions drawn from the study by Panikar and Soman and the NSS results necessitated a detailed study of the health status of Kerala and in particular its morbidity situation. Kerala Sastra Sahitya Parishad³ (KSSP), a voluntary organisation, took the initiative of conducting a study through primary data collection from 10,000 households covering all (1001) panchayats of Kerala⁴ [Kannan et al 1991]. To our surprise, the study came out with the similar conclusion of a high illness burden among the Keralites and further stated that the sickness burden is much higher than what has been observed in NSS rounds. Review of this book was published in *EPW* (December 19-26, 1992). Later, Anil Kumar and Leena Abraham (March 13, 1993) commented on the review and the KSSP study brought out by Kannan et al (1991). They were critical of the methodological aspect of the work and thereby certain conclusions of the KSSP study and seemed to believe

that "health indicators of Kerala masks the less obvious unhealthy features" [Kumar and Abraham 1993].

Given the above background, it is necessary to objectively examine the worthiness of the state of Kerala as a great achiever of health. It is being increasingly realised that the health status of a population cannot be grasped clearly through conventional mortality indicators. Caldwell (1989) relates health transition to epidemiological transition and argues that the former is an extension of the latter. Naturally, this calls for a clear understanding of the epidemiological situation of the state in order to have an idea of health transition. Surprisingly, not many studies of this sort are available in Kerala. Therefore, with the available secondary data, we will try to understand the epidemiological transition in Kerala and its major determinants. Further, we propose to examine the health paradox of Kerala with the existing studies.

I

Table 1 provides the data for 1981 and 1990 regarding the causes of death in the rural areas provided by the Registrar General of India for both Kerala and India. Though the quality of the data is considered to be poor, the availability of time series data annually from mid-1960s gives enough scope for an understanding of the epidemiological transition. However, a comparison is made only between 1981 and 1990 due to the differences in the type of classification of the causes of deaths prior to 1981.

A cursory look at the data spontaneously reveals two important points. Firstly, there exists a difference in the pattern of deaths between India and Kerala. Secondly, a comparison between 1981 and 1990 in Kerala shows a clear pattern of change in the causes of death. As shown in the table,

epidemiological transition is not a shift from higher illness burden to a lower illness burden. On the other hand, studies found that epidemiological transition consists of a passage from actual infectious diseases to acute degenerative diseases [Orman 1971]. Apparently, this transition is very clear or at least underway in Kerala's case.

As of 1990, major deaths have occurred in Kerala due to disorders of the circulatory system (which include anaemia and heart diseases), followed by other clear symptoms. Circulatory disorders have shown a marked increase between 1981 and 1990 in Kerala—16.8 to 23.5 per cent. On the other hand in India, the increase is marginal and it accounts for only 11 per cent of total deaths in 1990. According to the breakup data available for 1989,⁵ heart attack accounts for 80 per cent of deaths in Kerala (among disorders of circulatory system) whereas in India, it was 53 per cent.

Cancer and diabetes claim 52.9 and 17.6 per cent deaths (among other clear symptoms) in Kerala, whereas in India the percentages are 38.8 and 6.6 per cent respectively during 1989. At the same time, tetanus and measles classified under the above disease group are almost absent in Kerala. These two diseases account for nearly 11 per cent of the total deaths in this category in India.

The other two major killers in Kerala are coughs and disorders of the central nervous system. In the cough group, major share of deaths are due to asthma and bronchitis. In India, less than half the deaths in this category are due to asthma and bronchitis. Pneumonia, TB of lungs and whooping cough take away the other half. A substantial decline in deaths has also occurred between 1981 and 1990 in the fever-group in Kerala. Though the individual share of typhoid and malaria is unknown, it is clear from the data that the deaths due to these diseases are comparatively less in Kerala than India.

The share of digestive disorders group has also shown a decline between the study periods and notably diseases like cholera and dysentery were reported to be less for

TABLE 1: PERCENTAGE DISTRIBUTION OF DEATHS BY MAJOR CAUSE-GROUPS, 1981 AND 1990

Causes	Kerala		India	
	1981	1990	1981	1990
Senility	21.7	9.6	22.4	24.4
Coughs	13.5	14.1	20.7	18.8
Causes peculiar to infancy	5.6	3.4	12.1	9.8
Disorders of circulatory system	16.8	23.5	8.8	11.1
Fever	2.6	0.7	8.4	7.3
Other clear symptoms	16.1	19.7	8.1	8.5
Digestive disorders	6.2	4.8	8.0	6.2
Accidents and injuries	6.3	10.6	5.1	8.5
Disorders of central nervous system	8.9	13.7	3.5	4.3
The rest	2.0	—	1.9	—
Child birth and pregnancy	0.3	0.0	1.0	1.0

Source: Office of the Registrar General, India (ministry of home affairs), *Survey of Causes of Death* (rural), 1981 and 1990.

Kerala than the Indian average. A drastic decline has also taken place in the causes group of senility (deaths related to old age) for Kerala whereas it has shown a slight increase for India. One of the probable reasons for the increase in expectation of life at age 60 is the decline in the number of deaths caused by problems related to old age. And also because most of the deaths occur in medical institutions in Kerala, and the cause of death statistics has been certified properly. This calls for further exploration.

The percentage share of deaths due to accidents and injuries has moved upward in Kerala between 1980 and 1989 and is much higher than in India. One of the probable reasons for the highest incidence of accidents in Kerala can be attributed to the sharp increase in the registered vehicles in the last 10 years. For instance, during 1981 to 1991, the increase in the growth of vehicles has been calculated at 232 per cent.

Several studies have also shown that the percentage share of suicides, which also comes under this group has shot up considerably in the state recently. This high rate of suicides is a common phenomena in the development process. Kannan et al (1991) has described the alarming rise in the suicide rate in the age 15 to 24 years in the US. The suicide rates in most developed countries are comparatively very high. Though there could be several reasons for this it is in no way related to the health status of the state. More research studies are required in this direction.

The importance of the above section is mainly in understanding the pattern of causes of death rather than observing those figures carefully. As mentioned, causes of death patterns vary from the Indian figures. Further, the figures for Kerala clearly indicate an epidemiological transition process which is under way in the state. Diseases of poverty have been substituted by diseases of affluence or a shift has occurred from infectious diseases to chronic degenerative diseases.

This rapid change in the disease pattern of the state even though a large percentage of population live below poverty line is puzzling. Without going into the validity of poverty estimates for Kerala a study by World Bank (1989) showed that 49.2 per cent of rural and 48.3 per cent of urban areas of Kerala population live below poverty line (Table 2). Moreover, the per capita calorie intake of the state is even less than the Indian average according to the NSS estimates for various years (Table 3). In this context, it is necessary to mention that the inflow of remittances especially from west Asia plays a crucial role in the consumption habits of the people particularly in availing the health services. Several studies have shown that a substantial percentage of total consumer expenditure is accountable to remittances. A survey conducted to study the utilisation of Gulf remittances in the state indicated a phenomenal difference in the expenditure on health between those households with inflow of remittances and others [Department of Economics and Statistics, 1987]. The recent survey carried out at the

Centre for Development Studies (CDS) and the Gujarat Institute of Development Research (GIDR) also report similar findings for Kerala. In all antenatal care measures, migrant families have reported higher percentage of utilisation of facilities compared to non-migrant families [Irudaya Rajan and Navaneetham 1993b]. So the traditional method of measuring poverty might turn out to be spurious in the case of Kerala.

II

The achievements of the state with regard to mortality decline can be heavily attributed to the utilisation of health services and facilities by the people. Various surveys conducted in recent years have shown that Kerala's population is highly health conscious. A survey conducted in two villages of Kerala indicated that nearly 97.5 per cent of the people have received medical assistance [Kumar 1993a]. The study done by

the KSSP also showed a high percentage of the utilisation of the health facilities in the state [Kannan et al 1991]. The survey conducted in the three districts (Ernakulam, Palakkad and Malappuram) of Kerala also showed that Kerala is quite successful in the immunisation of mothers and children [Irudaya Rajan and Navaneetham 1993a; Zachariah 1993]. The survey found that more than 50 per cent of the children are immunised against the common childhood diseases, the highest being BCG vaccination with a 73 per cent coverage and lowest being measles with only 53 per cent of coverage. Moreover, the survey indicated nearly 84, 56 and 48 per cent of deliveries have taken place in private and public institutions in Ernakulam, Palakkad and Malappuram respectively [Irudaya Rajan and Navaneetham 1993b]. The National Family Health Survey (1993) conducted in Kerala also reports the similar findings. Kannan et al (1991) also noticed the

TABLE 2: PERCENTAGE OF POPULATION LIVING BELOW POVERTY LINE IN KERALA AND INDIA, 1970 TO 1988.

	1970		1983		1988	
	Rural	Urban	Rural	Urban	Rural	Urban
Kerala	72.9	66.0	51.8	50.9	49.2	48.3
India	53.0	45.5	44.9	36.4	41.7	33.6

Source: India, Poverty Employment and Social Service, A World Bank Country Study, 1989.

TABLE 3: CALORIE INTAKE IN RURAL AREAS OF KERALA AND INDIA

	1961-63	1971-72	1973-74	1977-78	1983
Kerala	1631	1610	1534	2634	2358
India	2511	2168	2328	2979	2781

Source: Kumar, B G (1993a).

TABLE 4: SELECTED MORTALITY INDICATORS AND MEDICAL ATTENTION AT BIRTHS, DEATHS IN KERALA

Year	Mortality Indicators			Medical Attention at Birth			Medical Attention at Death		
	IMR	NMR	PNMR	I	M	U+O	I	M	U+O
1971	58	21	37	32.7	29.9	37.4	NA	NA	NA
1972	63	26	37	31.1	19.9	49.0	20.6	37.4	42.0
1973	58	27	31	33.0	21.1	45.9	19.4	37.1	43.5
1974	54	23	32	35.5	21.1	43.4	19.0	40.2	40.8
1975	54	20	34	35.5	22.1	42.4	20.8	41.4	37.8
1976	56	22	34	38.4	20.9	40.7	25.6	33.4	41.0
1977	47	19	28	41.6	18.4	40.0	23.8	34.4	41.8
1978	42	15	27	46.2	17.1	36.7	25.7	35.9	38.4
1979	43	13	30	48.6	17.4	33.9	25.0	38.0	37.0
1980	40	11	30	49.3	15.6	35.1	27.3	36.1	36.6
1981	37	12	26	52.7	16.9	30.4	27.7	41.2	31.1
1982	30	9	22	53.6	17.0	29.4	32.2	41.7	26.1
1983	33	10	23	61.5	12.8	25.7	31.7	42.0	26.3
1984	29	8	21	72.8	9.3	17.9	32.7	41.9	25.4
1985	31	9	22	77.2	7.8	15.0	32.5	41.3	26.2
1986	27	8	19	78.1	7.9	14.0	33.3	42.3	24.4
1987	28	9	19	79.0	8.4	12.6	33.3	42.8	23.9
1988	28	10	18	84.9	6.2	8.9	41.5	33.3	25.2
1989	22	14	7	85.7	6.1	8.2	44.6	32.4	23.0

Notes: IMR = Infant mortality rate (NMR + PNMR)

NMR = Neonatal mortality rate (deaths occurred before the child completes one month).

PNMR = Post neonatal mortality rate (deaths occurred between more than a month and less than a year)

I = Institutional births or deaths.

M = Births or deaths attended by medical practitioners at home.

U+O = Births or deaths attended by unqualified medical practitioners and others at home.

Source: Sample Registration System, various issues.

utilisation of health facilities irrespective of socio-economic status. According to Krishnan (1991) Kerala's experience shows that health improvement can, to a large extent, be explained by the government's commitment towards equitable distribution of health facilities.

Table 4 gives some rough idea regarding the health utilisation of the state and its consequent result on the usual mortality indicators such as neonatal, post-neonatal and infant mortality. The infant mortality rate in Kerala was around 60 in 1970s, declined to 40 in 1980s and to 17 in 1990. Also, the births occurring in medical institutions and attended by medical practitioners have increased from 30 per cent in 1970s, to 50 per cent in 1980 and around 90 per cent in 1987. It was also observed that institutional births and deliveries conducted by trained birth attendants are important determinants of neonatal and perinatal mortality [Irudaya Rajan and Mari Bhat 1991]. The Kerala Fertility Survey also indicated that among the antenatal care measures only medical attention at the time of delivery and registration with an ANM were statistically significant factors [Irudaya Rajan and Navaneetham 1993b].

In this context, we would like to elaborate on two important points; the utilisation of private health sector in the state and the role of education in making people more health conscious.

The share of the health sector in total government expenditure rose steadily and significantly over time [Panikar 1992]. The utilisation as well as the development of private sector has been a vital factor in Kerala especially in the 1980s [Kannan et al 1991]. According to Panikar (1992), private expenditure on health in Kerala is one of the highest in India. The KSSP study also found that in case of acute illness nearly 66 per cent of the people depend on private institutions. Another amazing finding is that the utilisation of private institutions by the socio-economically poor section of the population. Nearly 43 per cent of poor also utilises the service of the private hospitals. It indirectly indicates the health consciousness among Keralites. Even the poor are ready to pay money to the private hospitals for better services though the services are available free of cost at government hospitals. The above findings are also supported by the Kerala Fertility Survey [Zachariah 1993].

What are the reasons for the increasing role of private sector in Kerala? Is it because the facilities offered at the government hospitals are poor and unattractive? Or is it due to the increase in purchasing power of the Kerala population? Serious research is required in this direction. However, we believe that the purchasing power of the Kerala population has increased tremendously in recent years. The question still remains: How long will the private sector be able to sustain itself in Kerala [Irudaya Rajan et al 1993]? How long will Kerala be able to receive Gulf remittances? Will there be a continuous flow of migrants?

The health consciousness and high level of utilisation of health services can be attributed to the state's literacy rate. Table 5 provides the literacy rate by sex for Kerala for the last 90 years. The National Family Health Survey (1993) has reported that the antenatal care measures utilised by different women of Kerala is almost similar to the level of education (Table 6).

III

After having understood the epidemiological transition and roughly the factors contributing to it, let us now turn a discussion of the so-called health paradox of Kerala. The obvious question will be: Do Kerala's mortality indicators mask the less obvious unhealthy features? Kumar (1993a) put forward mainly three possibilities. Firstly, morbidity as a statistical illusion, secondly, morbidity as a matter of perception and thirdly, morbidity as a real illness burden. He categorically argued that while data problems existed and the question of perception was certainly important, they could not by themselves account for the evidences relating to illness levels in Kerala. Kannan et al (1991), maintained that the perception factor, changes in the age structure and detailed reporting and the period of the survey might have led to inflated morbidity figures for Kerala in their survey. However, these factors are not sufficient to account for such a high morbidity level because the study also observed that morbidity is inversely related to socio-economic status. Therefore, it is the economic backwardness and poverty that play a role in this paradox [Kannan et al 1991]. According to Kumar and Abraham (1993), the negative relationship observed in the KSSP study between socio-economic factors and morbidity may be because the optimum level of awareness probably achieved by the higher socio-economic group would have reduced the morbidity rate due to reduced misperception of this class. Moreover, Kumar and Abraham (1993) have reservations regarding the methodological aspects of the study of KSSP [Kannan et al 1991] and thereby the conclusion the study draws. Therefore, we will not go in to the details of this aspect. However, it is to be mentioned at this juncture that several studies describes the difficulty in measuring the self-perceived morbidity and drawing conclusion based on this [Murray and Chen 1992]. Self-perceived morbidity measures can be grouped into four categories (Table 7).

These four measures of self-perceived morbidity are complex conceptually and very difficult to apply with high validity and reliability [more details on this aspect, see Murray and Chen 1993]. Several examples of surveys of self-perceived morbidity illustrate some of the problems. For instance, the National Sample Survey (NSS) conducted during 1973-74, has asked about morbidity among household members from the head of the households. Noteworthy is the reported morbidity rate for Kerala which was the highest, nearly three times the all-

India average, despite the fact that Kerala has one of the lowest mortality among Indian states (India, National Sample Survey 1980). Moreover, Kerala has a much higher prevalence of self-perceived chronic disease morbidity than any other state in India.

As against the KSSP findings, a survey conducted in two villages of Kerala have shown that per capita expenditure does not have any relation to morbidity [Kumar 1993a]. A positive correlation of morbidity with literacy rate and health infrastructure has been observed in an all-India study on morbidity [Kumar and Vaidyanathan 1988]. Kumar (1993a) noticed that even with a high incidence and prevalence rate, the duration of illness is low in the state. According to him, a plausible explanation is that in a region where a large proportion of illnesses are reported (as is likely in Kerala) one would expect a high morbidity rate with a moderate duration level. On the other hand, in a region where reporting errors or poor enumeration of illness are more likely (states other than Kerala) illnesses of longer duration are more likely to be reported and this would imply that incidence rate would

TABLE 5: LITERACY RATE OF KERALA 1901 TO 1991

Year	Literacy Rate		
	Male	Female	Total
1901	19.2	03.1	11.1
1911	22.3	04.4	13.3
1921	27.9	10.3	19.0
1931	30.9	12.0	21.3
1951	49.8	31.4	40.5
1961	55.0	38.9	56.8
1971	66.4	54.3	60.4
1981	75.3	65.7	70.4
1991	94.5	86.9	90.6

Source: Various census reports.

TABLE 6: ANTE-NATAL CHECKUPS OF WOMEN BY LEVEL OF EDUCATION

Level of Education	Proportion
Illiterate	85.4
Literate below primary	94.4
Primary completed	96.0
Middle completed	97.6
High school completed	99.6
Higher education	100.0

Source: National Family Health Survey, 1993 (unpublished).

TABLE 7: CLASSIFICATION OF CRITERIA FOR SELF-PERCEIVED AND OBSERVED MORBIDITY

Self-perceived	Observed
Symptoms and Impairments	Physical and vital signs
Functional disability	Physiological and pathophysiological indicators
Handicap	Functional tests
Use of health services	Clinical diagnosis

Source: Christopher J L Murray and Lincoln C Chen, 1992.

be lower but the average duration is higher. According to Krishnan (1991), the health situation in Kerala does not present any paradox because the prevalence of high morbidity compared to other Indian states is due to human and natural environment, the higher utilisation of health care facilities in Kerala, changes in health perception brought about by education and excessive concern with the health of children and pregnant women. All these give an indication that the measurement and the interpretation of morbidity is very tricky and vital conclusions based on some survey findings may even be dubious.

After having noticed the epidemiological transition of Kerala and the better health utilisation of the state, the paradox found in Kerala is quite surprising. Does Kerala then represent a paradox? A proper investigation on the morbidity situation, however, indicates that the sickness prevalence has moved in a direction opposite to death rate. Riley (1990) analysed the data from four developed countries (the US, Britain, Japan and Hungary) and concluded that in all these countries with a decline in the death rate the sickness rate has moved up. In Japan, the US and Britain the sickness rate has gone up in all age groups. This has happened even with a rise in private and public spending on the health services. Murray and Chen (1992) also observed a high morbidity rate for the US compared to India. How then is poverty associated with high morbidity in the KSSP study? The validity of that conclusion is doubtful. Analysis of the data provided by the Registrar General of India on the causes of deaths showed that no deaths have been reported because of malnutrition in the state. So what comes out from various studies on morbidity is that the low mortality and high morbidity syndrome is not a paradox but a common rule.

Ultimately, it is the health consciousness of the people that played the crucial role in the health status of Kerala. It is pertinent to note here that even with a high prevalence rate and incidence rate the state shows low levels of duration of illness [Kumar 1993a]. This should be attributed to the consciousness of the people to utilise the health facilities soon after a disease occurs. A larger percentage of people seeking private health facilities by paying money even with the availability of government hospitals free of cost indicate the type of service the people expect and importance they show in the health matters.

The low mortality and high morbidity is not a paradox and it is the rule of the law and health consciousness of the Keralites is supposed to be high, as reported from various surveys in Kerala. To conclude, let us listen to what Murray and Chen say about Kerala. Are Biharis healthier than Keralites? We think, probably, not.

Notes

- 1 BIMARU means sickness in Hindi. This word is coined from the four demographi-

cally sick states in India. They are Bihar, Madhya Pradesh, Rajasthan and Uttar Pradesh.

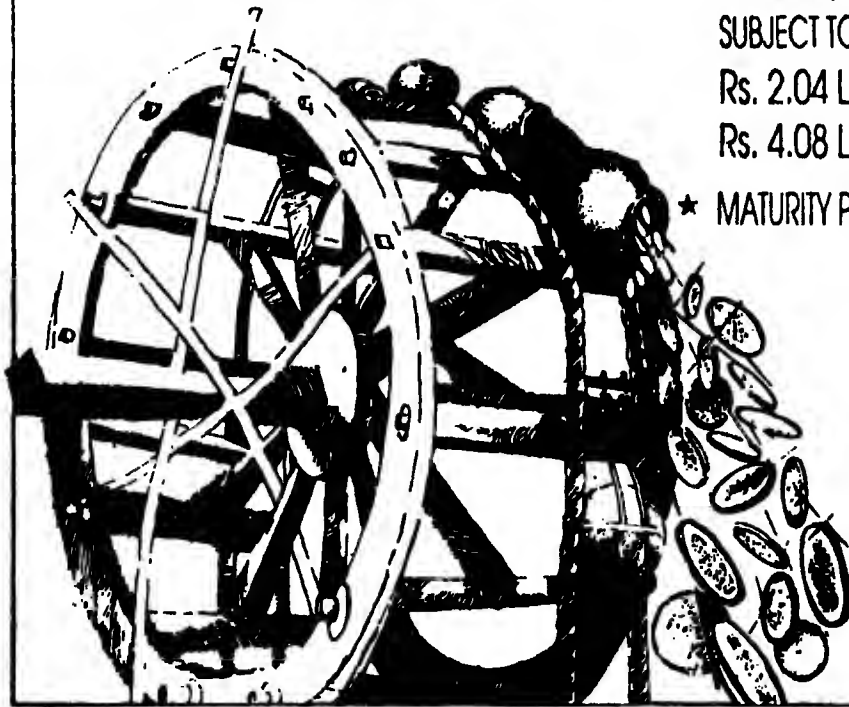
- 2 The senior author of this note was invited to attend the seminar on preliminary findings of the National Family Health Survey (Kerala), held at Trivandrum on May 17, 1993. This survey was conducted by the Population Research Centre, University of Kerala, Trivandrum in collaboration with the International Institute for Population Sciences, Bombay and Centre for Development Research and Training, Madras.
- 3 KSSP is an voluntary organisation which aims to build a people's science movement in Kerala through educational activities including publication of magazines and a number of books and pamphlets to mobilisation of public opinion on important developmental issues including health, formal education system, environment and development planning and policy. KSSP has been working in the area of health for the last 16 years.
- 4 The survey design was made in such a way to give as wide a coverage as possible. From every panchayats in Kerala 10 households were selected at random for the survey. Since the number of panchayats in Kerala during the time of the survey was 1,001, the total surveyed households were nearly 10,010. Out of the 10,010 schedules only 70 schedules were rejected because of defective entering which worked out to a mere of 0.6 per cent (Kannan et al 1991).
- 5 To provide data on major cause-groups, the Registrar General of India has fixed 50 deaths as a minimum for consideration. As the death rate has already low in Kerala, many major cause groups are not available for 1990 hence we discuss the 1989 data.

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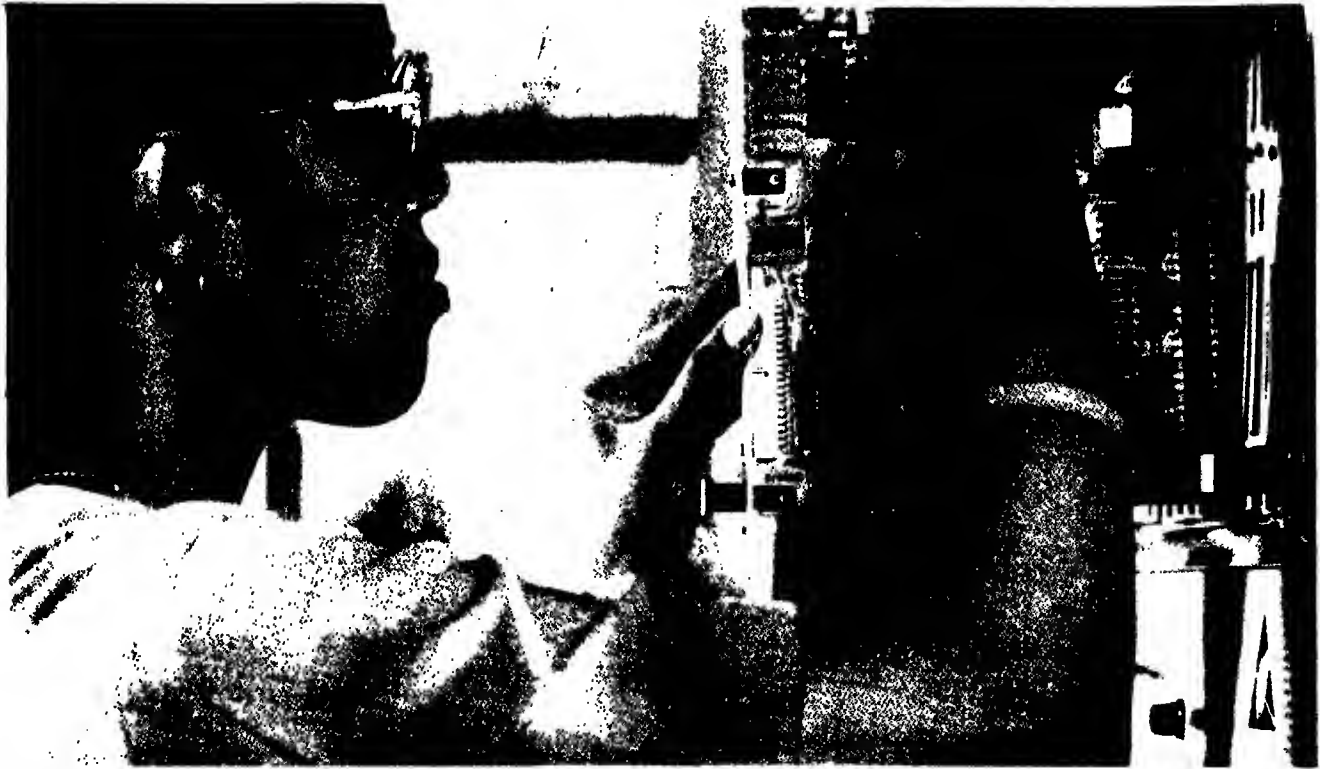
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Experience above Doctrine

Structural adjustment programmes have focused on using trade, fiscal and monetary policies to restore balance of payments equilibrium and stimulate growth in developing countries. These have taken shape against a background of global recession and large external debts. The policies have been underpinned by a shift in emphasis from state to market forces in organising economic activity. Some key insights for development which emerge from the experience of west Africa and south-east Asia with structural adjustment.

1937

Unequal Exchange

By the purchasing power parity criterion the currencies of developing countries are undervalued, not overvalued as conventional wisdom has always maintained. This has far-reaching implications for economic relations between the developed and the developing countries, including for foreign direct investment in the latter.

1927

Politics and Religion

It was not only a tactical but also a factual error to have described the two bills, whose consideration has now been deferred, as intended to 'delink religion and politics'.

1906

'History of the People'

The problems with subaltern historians' rewriting of history have derived from the contradictions and confusions inherent in the very concept of subalternity as a socio/political category.

1931

Financing Cities

Policy-makers across the developing world have responded to the challenge of urban growth in various ways, each country evolving instruments and institutions best suited to its circumstances with varying degrees of success. While there is a considerable body of literature depicting individual country experiences, there has been little effort to evaluate the results achieved in an analytical framework and to draw lessons which can be generalised. Review of a recent publication attempting to fill this gap.

1920

Doing and Undoing

Politics in Nepal emulates the Sisyphean syndrome. It moves inches forward only to fall back yards. It is not surprising, therefore, that having won their freedom to run a multi-party democracy, Nepali politicians should get busy with dismantling it.

1915

Casino Spirit

The emerging behemoth of international finance capital is not interested in long-term investment; its sole concern is with taking short positions, in making a killing in currency speculation and, of late, portfolio investment. It is in this whirlpool of world speculation that the Indian economy is sought to be 'globalised'.

1903

New Monopoly

The new monopoly of knowledge for the haves against the have-nots, sought to be instituted through intellectual property rights, raises a number of issues deserving serious consideration by countries like India.

1918

Food Security

The subsidised rice scheme in Andhra Pradesh, covering a population of 60 million, is comparable to schemes of food security having nationwide coverage in other countries. How successful has the scheme been in fulfilling its stated objectives?

1911

No Cure

Investing in health care for the poor in the manner proposed by the World Bank in its latest *World Development Report* will fail because it does not attack the sources of ill-health among the poor in third world countries.

1908

No Fish

With the completion of the Gandhi Sagar dam on the Chambal river, high hopes were generated among fisherfolk in the area. Now, 14 years later, the fisherfolk's hopes of higher employment and income lie shattered.

1910

LETTERS TO EDITOR

Tax-Sharing

IN his article, 'Towards an Alternative System of Tax-Sharing in India' (March 20-27), S Gurumurthi has argued for an alternative approach to tax-devolution on three grounds: (i) promoting stability in fiscal federalism by keeping tax devolution to states as a fixed percentage at 33 per cent of gross tax revenue (GTR), for a minimum period of 15-20 years, by a constitutional amendment; (ii) exploiting the dormant potential of Articles 268 and 269 of the Constitution under which levy of taxes is only by central government but the proceeds go wholly to the states; this is to be done by including the proceeds from taxes under these articles in the GTR of the centre, thereby encouraging the central government to increase the levies under these heads; (iii) on grounds of equity, the alternative system will do better as a result of inclusion of presently non-shareable taxes (customs duties, corporation tax, surcharge on income-tax) in the divisible pool of central tax revenue. It is, however, open to doubt, whether these three objectives will actually be attained by implementing the alternative system.

As shown by Gurumurthi in his article, in 1990-91, 25.24 per cent, i.e., Rs 14,535 crore, of GTR of centre went to the states (1991-92 (RE) being 25.56 per cent) and, under Articles 268 and 269, 100 per cent of Rs 6,832 crore that were collected went to the states. The two add up to Rs 21,367 crore. Following Gurumurthi's proposition, the states' share in GTR of 1990-91 at 33.33 per cent comes to Rs 21,467.1 crore, which is only Rs 100 crore more than the 1990-91 actual figure of Rs 21,367 crore. It implies that by suggesting a figure of 33.33 per cent, Gurumurthi is arguing for an improvement of a mere 0.15 per cent over the present situation.

The argument is that once the collections under Articles 268 and 269 of the Constitution go to the centre, it will exploit the dormant potential in this area and this will lead to an increase in the states' share too in absolute terms, by implication. However, by pegging the figure at 33.33 per cent for a period of 15-20 years, what is being suggested may actually work to the detriment of the states, as they will be entitled to a mere 0.15 per cent extra in an increasing cake. Since the argument behind this is of the Third Finance Commission (1961), namely, the government responsible for levy and collection should have a significant interest in the yield of the tax, the argument could equally go the other way to suggest that since the states are collecting these taxes, let them also have a significant interest in the yield of the taxes (like the argument being taken by Gurumurthi is that the centre, since it is levying these taxes, should have a significant interest in their yield).

I therefore suggest that the constitutional amendment may instead address itself to the issues of: (i) giving states the right to levy the taxes under these articles, so that their latent potential can be fully exploited; and (ii) fixing the centre's share in the collections of taxes under these articles. This would in fact lead to more stability in the fiscal system than the idea propagated by Gurumurthi. After all, a scenario in which the states are getting only an extra 0.15 per cent of an increasing cake, and that also fixed for 15-20 years, is bound to give rise to frequent demands for revisions in the share allocated. That the states will be receiving more in absolute terms in the overall portion will not be a tenable argument, especially if adjustments are made for inflation. Thus what we can expect under the alternative system will not be fiscal stability.

At the same time, as argued above, the system that will emerge following Gurumurthi's suggestion will be more inequitable from the states' point of view.

In the ultimate analysis, therefore, how far the alternative system will promote equity and stability in the system of fiscal federalism is open to question.

SUMITA DAWRA

Kakinada

Rapists Go Unpunished

WE wish to bring to the notice of your readers the case of gang rape committed on a helpless woman.

Mastan Bee was living with her parents in Siddanakonduru village in Nellore district of Andhra Pradesh. Her father Mastan has been watchman of the tobacco barns of the Sundaram tobacco company for the last 20 years. On the night of July 7 this year the parents had to go to a neighbouring village to attend some family function. Mastan Bee was alone in the shed which they have been using as their residence along with her

younger brother. At about 10 pm five men of the village went to the shed, drove away the young boy and gang raped the woman. The next day morning when the parents returned, Mastan Bee told them about the atrocity. The father went and complained to the sarpanch, Ramachandraiah Naidu. He summoned the culprits, imposed a fine of Rs 100 on each one of them and gave Rs 500 to the victim. These poor people did not dare to protest against this light punishment imposed for the heinous crime. They did not even have the courage to complain to the police, as they felt that they could not continue living in the village after making such a complaint.

Some other person in the village sent an anonymous report of the incident to the police station, which is located at Kaligiri, the mandal headquarters, about 10 days later. The police took the woman into protective custody and kept her in Kaligiri police station. They registered a case under IPC Section 376(2)(g) and managed to nab three of the culprits. The other two have been hiding and the police have not yet caught them, either because of inefficiency or collusion.

This village is notorious for atrocities committed on women and the culprits going scot-free. A girijan woman, Ankanima, was manhandled and humiliated sometime in 1990. She could not get any justice either in the village or in the law courts. She left the village and is living in some other village. A minor girl named Kondamma (13) of the potter caste was raped by two men while she was tending goats. This victim also failed to get justice either in the village or in the law courts. Her parents took her away and the family is living in some faraway village. This happened in 1992.

V SUBRAMANYAM

Secretary,
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An Awesome Prospect

THE Reserve Bank of India's annual report for 1992-93 provides, as usual, comprehensive and up-to-date data on the Indian economy, but the perspective it brings to bear on macro-economic policies, particularly those relating to the banking and financial sectors, is depressingly narrow. The picture that emerges from the report's pages is of an ivory tower institution far removed from societal and developmental concerns. The promotional goals of the financial system are being buried; the central bank's policy interventions would henceforth all be through indirect instruments out of touch with the realities of the market place. Except for Messianic faith in the righteousness of stopping automatic monetisation of the budget deficit and ensuring government borrowing at market-related rates of interest, the annual report shows few traces of any independent judgment on macro-economic policy issues, whereas a minimal sense of central banking autonomy should have made the Reserve Bank pause and ask why the devoted pursuit of IMF/World Bank programmes for two to three years has failed to bring about even enduring fiscal reform. No sooner has the standby arrangement with the IMF come to an end than there have occurred significant slippages in respect of the gross fiscal deficit as well as the monetised deficit.

Though the improvement in the supply position as a result of the bumper crop has been referred to, overwhelming importance is attached in the report to fiscal control and contraction of monetary growth in securing inflation control, ignoring the structural causes of the break in inflationary expectations. As data in the report bring out, inflation rates had been low in 1988-89 and 1989-90 when monetary growth had accelerated and budget deficit was high. While the bumper crop has been decisive in containing inflationary expectations in 1992-93, and in the current year so far, the fiscal compression has had its effect primarily in bringing about stagnation in industrial growth and in the provision of public services. However, there is not even a cursory reference in the report to the persistence of recessionary conditions in vast segments of Indian industry due to the cuts in the government's development expenditure and in overall public sector investment. The implications of the sharp fall in the gross domestic investment rate from 27.1 per cent in 1990-91 to 24.8 per cent in 1992-93 or in the gross domestic saving rate from 23.7 per cent to 22.5 per cent are similarly lost on the RBI. As a direct consequence of misguided policies encouraging conspicuous consumption and import of gold and silver, household saving in financial assets as percentage of GDP dipped to 7.7 per cent in 1992-93, its lowest level in recent years, from 9.1 per cent in 1991-92. The modest improvements in the saving ratios of the public and private corporate sectors have been evidently more than offset by the decline in household saving.

The combined development expenditures of the central and state governments, which had constituted 18.5 per cent of GDP in 1990-91, are expected to dwindle to 15.4 per cent in 1993-94 according to the budget estimates. In terms of absolute amount, the loss in development expenditure in 1993-94 as a result of

the decline in the ratio will work out to Rs 27,475 crore or 28 per cent. The report is unconcerned about what would happen to resources of this order left with households and the private corporate sector or the implications of their being dissipated in conspicuous consumption and non-functional investment. As the data in the report show, capital outlays have contributed to a declining share of the gross fiscal deficit at both the central and state levels, the share of the revenue deficit showing a corresponding rise. While the growth of the revenue deficit has been highlighted in the report, the implications of the sharp erosion in real terms of capital outlays are swept under the carpet.

In the sphere of banking, the drastic reduction in credit flow in favour of the priority sectors, in particular agriculture and small-scale industries, is altogether ignored. Normally any central bank would be expected to show greater concern for the banking system adhering to its directions and regulations. The norm of 40 per cent of net bank credit for the priority sectors is still in force, but in fact these sectors' share had fallen to 35 per cent at the end of March 1993 from 38.7 per cent at the end of March 1992 and 39.3 per cent at the end of March 1991. In the case of agriculture, as against the prescribed norm of 18 per cent, the actual share was 14 per cent at the end of March 1993. And while outstanding bank credit to medium- and large-scale industries rose by 24.7 per cent (or by Rs 11,537 crore) in 1992-93, that to small-scale industries crawled up by 10.3 per cent or Rs 1,877 crore. Clearly, the RBI's pursuit of an M_1 growth target of 10.4 per cent had much to do with these developments. It is evident who bore the brunt of the central bank's attempted monetary restraint.

The Reserve Bank's narrow policy perspective is brought out by the enthusiastic description in the report of the shape of things to come in monetary policy. Artificially low interest rates on government borrowing had become a thing of the past; interest rates on government securities were now close to the point of substitutability—a maximum of 13.5 per cent while the weighted average rate on banks' advances was around 15-16 per cent. It was proposed to further reduce the element of prescription of interest rates. The stipulation of a minimum lending rate for advances of over Rs 2 lakh would be discontinued and banks would be free to fix their own prime rates. Banks would also fix their own deposit rates with the discontinuance of the ceiling rate of interest on bank deposits. To provide some signal to the market, the Reserve Bank would denote one of its interest rates as a reference rate. The medium-term plan was to reduce the CRR from an effective 16.5 per cent in 1992 to 10 per cent and the SLR to 25 per cent, shrinking the captive market for government securities sharply. State governments too would have to move to market-related rates of interest on their market loans. Automatic monetisation of the budget deficit would cease and be replaced by a system of ways and means advances under which temporary accommodation provided to the central government would have to be liquidated by the end of the financial year. The Reserve Bank would endeavour to develop an active market

in securities for which it would undertake to develop institutions and instruments as well as an appropriate structure of market-determined rates of interest on securities. A close linkage would be established between monetary policy and exchange rate policy. The Reserve Bank was quite prepared to accept that the banks' choice of asset holdings would be determined not by statutory prescriptions but by risk-reward perceptions. To complete the picture, guidelines had already been issued for the promotion of market-makers in the major stock exchanges and for the grant of bank advances for the purpose without any ceiling and without applying the 50 per cent margin applicable to advances against shares.

The policy package thus aims at a total reversal of the developmental policies hitherto pursued. In the first place, such a monetary policy would leave the government no option but to renege many of its developmental programmes and contract its overall developmental expenditure, though the need for social and infrastructural development may be all the more urgent. The high cost of borrowing has already sharply raised the interest burden on the central budget. Further increases in interest rates to bring them close to market rates combined with the narrowing of the maturity pattern of government securities will lead to a situation where the annual debt service burden will overtake gross market borrowings, thus further reinforcing what the report describes in a different context as "a vicious spiral of rising interest rates and growing fiscal imbalances". Secondly, the severest fiscal harm will be done to the state governments, with disastrous consequences for developmental expenditures on agriculture, education, health and other social sectors, cutting at the roots of socio-economic development. Thirdly, the so-called risk perception by banks and financial institutions is hardly size-neutral; it is grossly biased against small borrowers in agriculture, small-scale industries and small businesses. The RBI's own bias is evident from the fact that while it bestows such detailed attention to the market-oriented reform of credit and monetary policy, it hardly has any worthwhile programme for revamping the rural credit structure which is in a shambles. Fourthly, considering the diversified nature of economic activity, some effective differentiation between agriculture, small-scale industry and large industry as also between short-term or working capital lending and term lending for investment alone would give interest rate policy some teeth. The proposed two-slab lending structure would imply exorbitantly expensive financial intermediation for small borrowers in the productive sectors. Fifthly,

the banking industry is still ill-equipped to handle competitive deposit rates and the abolition of the ceiling rate will sharply raise the cost of funds for banks and for the banks' borrowers. This is something best avoided at this stage in the interest of healthy financial sector development. Finally, by encouraging banks to lend to so-called market-makers in corporate shares, the authorities will be deliberately fostering the unproductive use of scarce resources, artificially boosting share prices and contributing to making the rich richer.

ATTACKS ON PRESS

Abdication by Government

THE recent spate of attacks on journalists in Bombay, masterminded by the Shiv Sena, is as much a comment on the party's continued threatening presence, as on the weak-kneed response of successive state governments to such terror tactics. This abdication of responsibility by the state is also seen in its studied disregard of the blatantly communalist writing in the Sena's daily, *Saamna*.

In the last month the Sena has disrupted public meetings, attacked journalists, threatened editors and ransacked newspaper offices. On August 19, Sena activists attacked the offices of the Marathi evening paper *Aaj Dinank*, assaulted journalists including a woman working there, damaged property and threatened the editor with dire consequences. The same day during a debate on the impact of the media on fundamentalism, a casual comment by Nikhil Wagle editor of another evening paper, *Mahanagar*, that he did not consider *Saamna* a newspaper brought a violent response from Shiv Sainiks in the audience. Two weeks later at a meeting organised by a newly-formed organisation to fight communalism, a Sena mob forced its way in, shouting slogans and attempted to manhandle the speakers disrupting the meeting for some time, until they were chased out. Last Sunday, again, Sena volunteers tried to disrupt a meeting where Wagle was the speaker. The Sena supremo has had no compunctions about owning responsibility for the attacks. In fact, in the most recent attack, the local MLA is reported to have been present.

The Sena's attacks on journalists and newspapers is not a new phenomena. In its 30 years of existence the Sena has used these tactics to intimidate its critics. In the 60s and 70s these methods were used against Marathi newspapers which were critical of the Sena's attacks on south Indians or commented upon Thackeray's writings. While the police registered a few cases and made arrests, no action was

ultimately taken against the offenders. This led to a sort of self-censorship among Bombay papers which avoided commenting directly on Thackeray or the Sena. The state too could, then happily ignore the Sena's activities.

In this environment, where everyone believed that the Sena would simply vanish if one did not speak of it, the party grew, albeit intermittently, capturing space through social and cultural forums. With the launching of *Saamna*, that paper took over from *Marmik* the task of drawing the Marathi-speaking middle class into its fold with a narrow parochial and Hindu communalist focus. In a manner of speaking, the print media in Bombay had become legitimate Shiv Sena turf. The appearance of *Mahanagar*, aimed at providing an alternative focus, and its daring condemnation of Sena tactics inevitably challenged the party in its stronghold. Wagle has been threatened repeatedly, the offices of *Mahanagar* have been ransacked several times and journalists who have protested against these attacks have been assaulted. The Sena's wrath today is sharper partly because its role in the Bombay riots and its links with elements in the police are being documented in the proceedings of the Srikrishna Commission. And for a similar reason, it would be optimistic to rely on Sharad Pawar's promise that the state would provide full protection to journalists who have been threatened or are likely to be threatened.

EAST EUROPE

Mirage of Stabilisation

ANNUAL reports of multilateral agencies like the International Monetary Fund (IMF), the Bank for International Settlements (BIS) and the UN Economic Commission for Europe (UNECE) have in recent years been giving special attention to the economic situation in what these western-dominated agencies describe as the 'transition economies'—the erstwhile centrally-planned economies which are in the process of transforming themselves into market-oriented systems. This group now comprises as many as 25 independent states, 15 of them with populations of less than six million each.

While there are vast divergences in factor endowments, stages of development and historical settings, the suffering the people of these 25 countries have been undergoing has been mind-boggling. To quote the *Economic Survey of Europe for 1992-93* of the UNECE: "The widespread and enthusiastic support for radical political and economic change that followed the revolutions of 1989 has now given way to a large measure of disillusion."

sionment and discontent as the costs of adjustment have proved to be much greater than expected. Expectations of improvements in living standards were greatly exaggerated in the initial period. The stabilisation policies adopted and the conventional price and trade liberalisations, as dictated by the multilateral agencies, have led to much deeper and longer recessions than expected... living standards have fallen rather sharply in every one of the 25 east European and successor Soviet Union republics. In eastern Europe, gross domestic product (GDP) or net material product (NMP) experienced an absolute decline of 10 per cent in 1992, bringing the cumulative loss in three years since 1989 to more than 30 per cent."

It is interesting, though not surprising, that countries which had the closest links with the erstwhile COMECON and the Soviet trading system have suffered the sharpest declines in GDP/NMP. Bulgaria's NMP declined by 17.5 per cent in 1990, 25.7 per cent in 1991 and 22 per cent in 1992, a total fall of 52 per cent in three years. Romania's GDP fell by 5.8 per cent in 1989, 7.4 per cent in 1990, 13.7 per cent in 1991 and 15.4 per cent in 1992, or by about 36 per cent in four years. Countries which had broken away from the Soviet system relatively early seem to have suffered less than the others. After a loss of 18 per cent in GDP in 1990 and 1991, Poland experienced a nominal recovery in 1992. Hungary suffered a GDP loss even in 1992, but the overall loss in the three years ending 1992 was about 20 per cent. The most tragic case is, of course, that of Yugoslavia, the three republics into which it has broken up suffering from severe ethnic and political conflicts as well as decline in gross material product ranging from 20 per cent to 50 per cent in the past three years together. The CIS countries, including the Russian Federation, have suffered deep cuts in output, particularly after the political upheavals of 1992. The contraction in NMP in these countries was 4 per cent in 1990 and 10 per cent in 1991, but it shot up to 20 per cent in 1992. In the Baltic states too NMP contracted by as much as 35 per cent in 1992.

Even these steep GDP/NMP losses do not fully reflect the overall decline of social welfare in these societies. According to official estimates, the proportion of the population with incomes below minimum subsistence requirements more than doubled in 1992, from 12 per cent to 29 per cent. In addition, the erosion of public services in health, education and culture has worsened the incidence of poverty. Unemployment rates have soared in most east European countries, with the exception of the Czech and Slovak republics that have adopted large public employ-

ment programmes. About 6.5 million people were registered as unemployed in December 1992 in the east European countries, a rise from 5 million a year ago—in keeping with the normal experiences of countries implementing structural adjustment programmes. UNECE reports that the structural adjustment programmes in Hungary contributed to a 40 per cent loss in employment in large enterprises between 1989 and the autumn of 1992. In the former Soviet Union, the impact of losses in output on employment was delayed because of reluctance to retrench labour, but the UNECE fears that, given the expectation of a further deterioration in output, particularly in the CIS countries, the rise in open unemployment will soon begin to accelerate sharply. In the absence of social safety nets, this will inevitably increase social and political instability.

Inflation is still a major problem in all the so-called transition economies, though there are significant inter-country differences. Even the most successful reformers among them, namely, Hungary and Poland, who have squeezed aggregate demand through 'shock therapy' stabilisation policies, still experienced inflation rates of 23 per cent and 43 per cent, respectively, in 1992. Except for the Czech republic where the inflation rate fell from over 50 per cent in 1991 to 10-11 per cent in 1992 and the Baltic states where it came down from double digit levels to 3 to 5 per cent, hyper-inflation persisted in all the countries, ranging from over 200 per cent per annum in Albania, Romania and Slovenia, to over 300 per cent in Russia and most of the CIS countries and over 9,000 per cent in the Federal Republic of Yugoslavia.

The largest losses of output coincided with the introduction of radical economic reforms—in 1990 in Poland, 1991 in the other east European countries and 1992 in the CIS countries and the Baltic states. The collapse of intra-regional trade exacerbated the impact of radical economic reforms, both on the demand side due to the loss of export markets and on the supply side following reduced imports of fuels and raw materials. Above all, the so-called shock therapy rendered a large part of these countries' capital stock and industrial capacity obsolete, while the absence of institutional, organisational and managerial preparedness for market-oriented systems led to lack of supply-side responses.

The market reforms in the former centrally-planned economies have sparked a debate on whether they should adopt a gradualist approach to market reforms or go in for the 'big bang' or 'shock therapy' method. Weighing the pros and

cons, the UNECE draws some lessons which have universal application. First, the 'shock therapists' raise expectations of a more rapid adjustment than is possible in practice and so they "must bear some responsibility for the current disappointment and disillusionment in many of the transition economies". Their recommendations not being based on actual experience or rigorous research, they underestimate the problems of bringing about the required radical changes in attitudes, expectations and behaviour in a very short time. The east European countries are facing unprecedented upheavals questioning the fundamental structures of their societies, including their political and institutional systems. This situation calls for a strategy of policy-making which provides for genuine discussion and debate.

The UNECE report's findings on the fast-dwindling credibility of stabilisation policies and structural reforms are revealing. In Hungary, while there was an enthusiastic response to free election in March 1990, by the middle of 1992 opinion polls were recording widespread dissatisfaction (ranging from 72 to 87 per cent of the respondents) with the economic and political situation. Similar discontent was evident at the start of 1992 in Poland—87 per cent were dissatisfied with the political situation and 80 per cent with their standards of living. Frustration is no less widespread in Russia. While it is true that popular attitudes to rapid economic reforms are complex and often contradictory (seeking, for instance, at the same time lower taxes and more social expenditure or supporting privatisation but opposing the unemployment associated with it), there can be little doubt that much of the growing resentment arises from the bureaucratic and dictatorial impatience of 'shock therapists' who are disdainful of the democratic requirement to explain the costs of the new economic and social policies and to ensure more equitable distribution of these costs.

CONGRESS(1)

A Good Turn

IT would be unrealistic to expect the likes of Arjun Singh to measure up to the standards of progressive politics at any time; it is even more so in the political culture of the hustle and the grab, and of the ephemeral, which is the dominant pattern now. Nevertheless, the stand that he has taken in favour of restoration of inner-party democracy in the Congress(1) needs to be noticed. Admittedly, Arjun Singh is not a political idealist—his record as a politician would not stand even far less

rigorous scrutiny. Yet in politics it is not merely the potential effect of the postures and gestures and words that matters, but these matter in themselves—for they never are without such a potential. From this perspective, the postures and gestures of even a degenerate Arjun Singh need to be watched, especially when they are enacted in the inner forums of the Congress(I).

The latest demand of Arjun Singh has concerned the constitution of the Congress(I)'s central election committee (CEC) and Pradesh election committees (PECs) through elections. Given the character of the party and its members, any election can only remotely be democratic. Further, given this same character and the potential of the electoral process to strengthen/weaken factional groups within the party, the bodies constituted through this process can hardly be expected to function democratically. Yet, precisely for these reasons, it is important to constitute these bodies democratically. Given the motivation behind the demand for the election of a CEC, it was expected to be rejected; the credit for raising it, nevertheless, must be conceded to Arjun Singh. By raising this demand, while knowing that it was likely to be rejected, he has not merely dealt a blow, however weak, to Narasimha Rao; he has also kept, through an in-party issue, the democratic agenda in the public eye, exposing in the process the democratic pretensions of the Congress(I) leadership.

Look at the twists and turns the central leadership of the party had to negotiate to explain and enforce its decision. Under the party constitution, only the CEC is authorised to select candidates for elections. To elect the CEC, a session of the AICC would have been necessitated, a dangerous proposal for Rao. Rao loyalists first pointed out that from 1977 to 1990 the CEC had never come into existence. During this period, only the Central Parliamentary Board (CPB) of the party had finalised the list of candidates. It was only in 1991 that a CEC was constituted, but that was done through nominations, and not elections as demanded by Arjun Singh. Next, the AICC general secretary Sushil Kumar Shinde declared that under the party rules the CEC "should have been formed either at the Tirupati session or immediately afterwards". Since this had not taken place, "the power to set it up automatically passes to the CWC". Then, when in Madhya Pradesh, the home state of Arjun Singh, the PCC convened a meeting to elect a PEC, Shinde sent a telegram which said: "PEC should have been set up right in the beginning. Any such meeting is therefore deemed to be unconstitutional".

Finally, of course, the CWC has authorised the Central Parliamentary Board to

select the candidates. The CPB, in turn, will be constituted by—who else?—Narasimha Rao. A selfishly motivated Arjun Singh is doing a good turn, for the moment at least, to national politics.

BOSNIA

Behind-the-Scene Players

WHILE there appears to be no alternative to a negotiated settlement of the 17 month-long war in Bosnia, and while even the slightest delay in arriving at such a settlement would fearfully add to the continuing human suffering in the war-ravaged territories, the rejection of the recent Geneva peace plan by the Bosnian Muslims is difficult to fault.

Given the ground realities, a division of the country on ethnic lines is perhaps inevitable. The Bosnian Muslims' reluctance to accept the Geneva plan on at least this ground was therefore largely unrealistic. However, even a cursory glance at the main proposals of the plan reveals the rest of their objections to be perfectly justified. Had they accepted the plan as presented, they would have ended up with a virtually land-locked territory, with only a very narrow access to the sea and to the river Sava in the north. With a pre-war population of 44 per cent, they would have received just 30 per cent of the land. Sarajevo, the besieged capital of the country, would have come under the control of the UN for a period of two years. The administration of the other controversial city Mostar, now partially under the occupation of the aggressive Croats, would have been taken over by the European Community. The Bosnian Serbs, on the other hand, accounting for approximately 33 per cent of the population, would have received 52 per cent of the territory. Even the Croats stood to get a relatively good deal: 20 per cent of the land with only 17 per cent of the population.

The proposals, which were heavily loaded against the Bosnian Muslims, blatantly rewarded the militarily stronger and more aggressive parties, mainly the Serbs who now control 70 per cent of the territory. According to these proposals, the Serbs were under no obligation to return most of the so-called ethnically-cleansed territories which they had taken by force. No wonder that the self-proclaimed assembly of the Serbs accepted the plan with just a show of reluctance, although the decision failed to stop the ambitious Bosnian Serb leader Radovan Karadzic from voicing his desire to see a 'union of Bosnia-Herzegovina republics', envisaged, ironically, as "a free and democratic society".

This confidence of the Bosnian Serb leader stems at least partly from the slow-

footedness of the western powers in bringing a quick end to the conflict—one reason for which behaviour could well be, as is being said, purely cultural, namely, that a majority of the suffering people in Bosnia happen to be Muslims. However, another source of this confidence could be the willingness of the western powers to keep the Balkan pot boiling for historical and strategic reasons. The behaviour of at least one party to the conflict, the Croats, provides explicit evidence, however slight, in support of this contention. The Croats, who are backed by Germany, were the first to walk out of the talks being held to discuss the Geneva plan. While the Serbs had taken a step towards meeting Muslim demands by agreeing to cede a 3 km strip of territory to link the Muslim enclaves of Gorazda and Zepa in eastern Bosnia, the Croats adamantly refused to consider their demand that the port of Neum on the Adriatic sea, which fell under the proposed Bosnian-Croat republic, be included in their territory. It is true that the port of Neum could be important for the Croats as it forms a link between the Croatian port town of Dubrovnik and Croatia proper, it is difficult to believe that they would have taken so rigid a stand, risking the collapse of a plan which was, on the face of it, advantageous to them, without the complicity of their powerful ally.

Even the attitude of the Vance-Owen and Owen-Stoltenberg teams, which have otherwise been so strenuously attempting to bring peace to the region, lends credence to this contention. The latest plan was being brokered by the latter duo, and it had come up after the Vance-Owen plan of May 1993 was rejected by the Bosnian Serbs. The ground for this rejection was that they (the Serbs) were being asked to give up too much of the land they had annexed during the war. Knowing that the Muslims were likely to object to such a proposal, the Owen-Stoltenberg team thought it fit to bow to Serbian pressure: by allowing the Serbs to retain most of the land they had annexed, the team put the onus of bringing an end to the war on the harried Muslims who had had little role in starting it in the first place. In other words, in practice the Owen-Stoltenberg team was conspiring to perpetuate the war.

If this contention has any basis, then a negotiated settlement of the type proposed recently is not likely to keep the Balkan embers doused for a long time. The conflict in Bosnia has historical roots and, like in most such conflicts, it has had a lot to do with the political and strategic interests of the powerful nations. A final settlement to the conflict would, therefore, need to conform, to a greater or lesser degree, to the long-term interests of these nations.

Indo Rama Synthetics (India)

INCORPORATED in 1986, Indo Rama Synthetics (India) is promoted by the Lohia's of the Indo Rama group, engaged in spun yarn, polyester fibre and polyester filament yarn, petro chemicals and steel plants. The company went public in June 1989 and over the last four years has achieved an average annual growth rate of 100 per cent in sales, 105 per cent in profits and 62 per cent in production. The company is a government-recognised export house and is a recipient of the Synthetic and Rayon Textiles Promotion Council Export Awards for 1989-90 and 1990-91. In 1992-93 the company exported 54 per cent of its total turnover of Rs 129 crore. The company started with an initial capacity of 21,120 spindles and increased it to 58,992 spindles. The company now proposes to further increase its capacity to 140,160 spindles by setting up additional 21,984 spindles at Pithampur and 59,184 spindles at Butibori, Nagpur, out of which 3,456 spindles at Nagpur will start operations next month and installation of the balance will be completed in a phased manner by October 1994. The company is also undertaking a backward integration project to manufacture 38,000 tonnes per annum of polyester-oriented yarn and polyester staple fibre (PSF) at Butibori in collaboration with E I Du Pont De Nemours of USA (for polycondensation unit) and with Toyobo of Japan (for PSF). This is the first time Japanese PSF technology is being brought to India. The Rs 555 crore project is to be financed through a Rs 267.26 crore rights issue of zero interest fully convertible debentures, Rs 9.25 crore from NRIs (already raised), term loans of Rs 270.78 crore, state subsidy of Rs 30 lakh and internal accruals. Term loans include foreign currency loans of \$ 35 million from International Finance Corporation, Washington, DM 15 million from DEG Germany, DM 41.19 million from IKB Germany and a foreign currency loan of \$10 million and rupee loan of Rs 20 crore from Industrial Finance Corporation of India (IFCI). IFC, Washington, and IFCI have agreed to subscribe to \$ 10 million and Rs 15 crore of fully convertible debentures, respectively. Part A of Rs 60 of the FCD face value of Rs 240 will be converted into one equity share at a premium of Rs 50 on the expiry of six months from the date of allotment while part B of Rs 180 will be converted in the 18th month at a price

which will be 75 per cent of the average market price in the 15th, 16th and 17th month from the date of allotment. The projections made by IFCI (the project appraiser) forecast sales of Rs 137.5 crore, Rs 195.5 crore and Rs 497.7 crore for 1993-94, 1994-95 and 1995-96 and net profit of Rs 16.4 crore, Rs 23.7 crore and Rs 36.2 crore for the respective years. Earnings per share on a capital of Rs 33.2 crore for 1993-94 works out to Rs 4.9 and on an enhanced capital (after conversion) of Rs 55.4 crore to Rs 4.3 and Rs 6.5 for 1994-95 and 1995-96, respectively.

Maruti Organics

The company was incorporated in 1991 and has been promoted by A S Murlidhar, A S Vijay Kumar, A S Srinivas and E Rukmani with experience in the field of ethyl acetate. The company is entering the capital market with a public issue of 31,50,000 equity shares of Rs 10 each at par on September 17. The issue is to part finance the company's project for manufacturing Industrial alcohol in Karnataka

with an installed capacity of 60 lakh litres per annum. The project is to be financed also through promoters' equity of Rs 2 crore, equity participation by Karnataka State Industrial Investment and Development Corporation (KSIIDC) to the extent of Rs 50 lakh and rupee term loan from IFCI of Rs 4.25 crore. Industrial alcohol finds wide application in chemicals, drugs and pharmaceuticals, pesticides and as an intermediate for polymers and bulk drugs. The possibility of another high potential application as fuel power alcohol (GASOHOL) for automobiles may widen the market further. The company anticipates no difficulty in marketing its production as the demand supply gap in Karnataka for 1991-92 was estimated at Rs 162 lakh litres and the existing alcohol-based chemical industries are working below their plant capacities due to shortage of industrial alcohol. The recent decontrol of molasses has made the industry's raw material freely procurable from the market. The projections made by IFCI (which appraised the project) were done before the decontrol of molasses and the

Poverty and Income Distribution

Edited by

K S Krishnaswamy

While there has been, over the years, a perceptible increase in per capita income and expenditure and possibly some decline in the incidence of poverty in India, what still remains is massive and of a kind that is not remedied quickly or smoothly. Even with radical policies, the shifts in income and occupational structures to make a serious dent on it will take more than the rest of this century. In the welter of recent exchanges between the government and the opposition as well as between planners and market advocates on the strategy of growth, these issues, have been largely obfuscated. It is therefore more than ever necessary today to recognise the magnitude of the problem and the inadequacy of the measures adopted so far to deal with it.

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resultant price rise. Taking into account these factors, the company, at 90 per cent capacity utilisation, projects a turnover of Rs 3.9 crore, Rs 5.8 crore and Rs 5.9 crore for 1993-94, 1994-95 and 1995-96, respectively, while the projected net profit for the three years is Rs 0.9 crore, Rs 1.5 crore and Rs 1.6 crore. Assuming that the above figures are achieved, the earnings per share would be Rs 1.58, Rs 2.67 and Rs 2.52 for the three years.

Praj Industries

Praj Industries (formerly Praj Consetech) was incorporated in 1985 and was one of the first companies to receive venture capital assistance from ICICI. The company is the country's leading manufacturer of ethanol production equipment and has commissioned over 50 plants in India and abroad. In addition to supplying equipment for producing alcohol (ethanol) from molasses, it has also developed expertise in nonmolasses-based alcohol production. The company has collaboration agreements with Reheat AB of Sweden, McBain Consultancy of Scotland and DAB Brau Consult GmbH, Germany. It has three modern manufacturing facilities on the outskirts of Pune and is implementing an ambitious diversification plan. The company has a total market share of over 60 per cent and has notched a turnover of Rs 322 million and a gross profit of Rs 32 million in 1992-93. It has an order book position of over Rs 500 million. The company's diversification plans include upgrading existing levels of ethanol technologies for a variety of raw material, new technology for the production of varieties of beer, expanding the range of heat transfer equipment, expanding into separation technology with fraction distillation, multi-component distillation, membrane separation and other systems, expansion into the financial service sector and increasing overseas operations for which a company called Praj Far East has been incorporated in Singapore. To part finance this programme, estimated to cost Rs 60 million, the company intends to enter the capital market with a public issue towards the end of this year.

Balmer Lawrie-Van Leer

Balmer Lawrie, a government of India enterprise, and Van Leer of the Netherlands have embarked upon an expansion and diversification plan for their joint venture company, Trisure India, which is being renamed as Balmer Lawrie-Van Leer. Construction of the first phase of the project has started. This involves

manufacturing 20-25 litre 'Valerex' plastic drums at Turbhe. A new concept in industrial packaging, the Valerex technology combines high performance and insures safety during handling, storage and transportation. Construction of the second phase of the project, which involves manufacturing 200 litre capacity Valerex drums, has also commenced. The plant is expected to go on stream by October 1994. The total outlay on the project has been estimated at Rs 40 crore. This will be financed by a rights issue to and preferential allotment to Van Leer, Balmer Lawrie, public issues and bank borrowings. At present Balmer Lawrie and Van Leer have 26 per cent and 29 per cent equity stake in Trisure India. Trisure India is currently manufacturing metal closures and the promoters have decided to increase its production capacity as well as to widen the product range. A major part of the increased production has been earmarked for exports.

Reliance Petroleum

Reliance Petroleum, promoted by Reliance Industries, is entering the capital market on September 23 with a giant public issue

of Rs 861.6 crore of secured triple option convertible debentures of Rs 60 each with freely tradeable warrants. The issue is being made to part finance the 90 lakh tonne oil refinery being set up in Jamnagar at an estimated cost of Rs 5,142 crore. The refinery will be India's first grass roots oil refinery in the private sector. The total issue size will be Rs 2,172 crore of which Rs 861.6 crore is being offered to the public, Rs 434.4 crore to Indian financial institutions, Rs 217.2 crore to foreign institutional investors, Rs 434.4 crore has been reserved for preferential allotment to Indian mutual funds and Rs 217.2 crore to the shareholders of Reliance Industries. Reliance Industries is also subscribing to Rs 577.4 crore in the form of triple option convertible debentures. CRISIL has given a BBB+ rating to this issue. The refinery will process petroleum crude to produce LPG, naphtha, gasoline, kerosene, aviation turbine fuel, high speed diesel, fuel oil, bitumen, sulphur, reduced crude oil, feedstock for lube refinery and carbon black feedstock. The company has signed a memorandum of understanding with Bharat Petroleum Corporation for marketing its products.

COMPANIES

Growth Despite Family Feud

Jairaj Kapadia

THE 1992-93 financial results of Apollo Tyres bear witness to the charges levelled by the company's chairman. For instance, the inflation of 'other income' is shown in the published abridged accounts at Rs 1,108 lakh against Rs 453 lakh in the previous year and of 'receivables' at Rs 7,515 lakh against Rs 5,281 lakh in the previous year, while profits have suffered a marked contraction.

However, the company's two plants at Kochi and Baroda worked to their peak capacity while with their better utilisation it was possible to achieve a substantial growth in production. This is borne out not only in increased sales realisation but also in increase in the number of tyres sold. The number of automobile tyres sold improved from 728,923 to 1,069,114, of automobile tubes from 646,957 to 801,358 and of automobile flaps from 413,553 to 679,105. Further, as domestic sales expanded 26 per cent, exports registered a 364 per cent growth from Rs 1,334 lakh to 6,189 lakh. As against that, foreign exchange outgo was Rs 496.93 lakh.

The company has drawn up, according

to the directors, specific action plans to sustain rapid export growth. At home, in order to extend the product range and service the dealers better, the company has tied up with S Kumar and Sons to market their two and three-wheeler tyres under its own brand name and manufactured to its quality standards. The company is also planning to add on large farm and OTR tyres, both with potential domestic and export markets, to its product range. It is importing a second-hand tyre plant for this purpose free of cost from a Canadian firm with a buy-back arrangement for the manufactured tyres. Meanwhile, Gujarat Prestorp Elektroniks in which the company has invested Rs 518 lakh by way of diversification is to commence production of paper phenolic and glass epoxy copper clad laminates this month.

DIAMINES AND CHEMICALS

Expansion Programme

Against increased production and sales, Diamines and Chemicals has earned for the year to March 1993 a lower net profit

due to higher provisions made for both depreciation and taxation. The dividend is, however, maintained at 25 per cent. According to the directors, margins were under pressure during the year due to recessionary conditions in the market while a steep rise in interest rates increased the interest burden. Production of ethyleneamines and piperazine during the year was higher by 18 per cent at 2,530 tonnes compared to 2,141 tonnes during 1991-92. So also sales in quantity from 2,218 tonnes to 2,308 tonnes and in value by 11 per cent from Rs 2,326 lakh to Rs 2,580 lakh. But while operating profit improved from Rs 412 lakh to Rs 462 lakh, gross profit showed a marginal increase from Rs 223 lakh to Rs 229 lakh, and net profit went down from Rs 106 lakh to Rs 87 lakh.

Exports of ethyleneamines showed a marginal increase from 260 tonnes to 276

tonnes, earning Rs 161 lakh in foreign exchange as against Rs 327 lakh expended on import of raw material, technology fees and other expenses. The company is broadening its export base as well as its coverage of the domestic market. With the third phase of modernisation-cum-expansion programme completed, the installed capacity of ethyleneamines has stood enhanced from 2,300 tonnes to 2,600 tonnes per annum. The company now proposes to raise the capacity to 5,000 tonnes in a phased manner. It is negotiating for the necessary technical know-how for the project for manufacture of piperazine derivatives with Berol Nobel AB, Sweden, on their taking over the piperazine business from the collaborators, Rexolin Chemicals, Sweden. The company has also approached the financial institutions for part financing of the project.

At the same time, it is also proposed for the shareholders at the annual general meeting being held on September 11 to pass a resolution to raise the authorised share capital from Rs 3 crore to Rs 10 crore. Hindustan Biotech, promoted jointly by the company with the Pradeshia Industrial and Investment Corporation of UP (PICUP), is putting up a project for manufacture of bulk drugs such as beben-dazole, nifedipine and atenolol at a cost of Rs 4.56 crore at Sikandarabad in Bulandshahr district of UP. It made in May 1993, through the OTCEI, a public issue of 11 lakh shares of Rs 10 at par, which was oversubscribed. As promoters, the company has been allotted 5,20,000 shares.

G P ELECTRONICS

Margins under Pressure

Against the present modest rate of Rs 85, in the recent market boom, the equity share of G P Electronics was bid up to as high as Rs 220.20 in 1992 in the wake of expectations of a higher dividend from the company which it had increased from Rs 2 to Rs 2.50 per share. The company has maintained that dividend for the year ended March 31, 1993, but the payout has gone up substantially from Rs 46.25 lakh for 1991-92 to Rs 61.01 lakh, as the dividend has covered the full year's payment on the 11,90,575 equity shares which were issued in conversion of debentures on September 30, 1991.

This is a striking feature of the 1992-93 results of the company, which is still nascent and has completed only 11 years. The results show that the profit margin was under pressure which the directors report was due to a steep rise in power tariffs, coupled with high interest rates, and inability of the company to pass on the cost increases fully to the consumers because of a difficult demand situation. However, sales went up by 27 per cent, while with a continued export drive, exports recorded a healthy growth of 57 per cent from Rs 113.37 lakh to Rs 178.53 lakh. Foreign exchange expended was a minimal Rs 10.23 lakh.

During the current year, operations continue to be conducted at full capacity by the company, which is engaged in manufacture of hard ferrites and for which it has installed the licensed capacity of 1,500 tonnes, and of which it produced during 1992-93 19,22,000 pieces against 164,41,000 pieces in the previous year. The directors observe that greater operating efficiency, total quality management, drive for larger exports and higher indigenisation of the inputs used form the cornerstone of the company's response to the various challenges it is facing.

The Week's Companies

(Rs lakh)

Financial Indicators	Apollo Tyres		Diamines and Chemicals		G P Electronics	
	March 1993	March 1992	March 1993	March 1992	March 1993	March 1992
Income/expenses/profits						
Net sales	39406	27797	2315	2106	903	713
Excise duty	10660	8288	265	220		
Other income	1108	453	44	27	19	18
Increase (decrease) in year-end finished stock	1958	600	341	13	2	90
Raw materials consumed	26530	16586	1310	971	77	73
Power and fuel	—	—	413	341	128	85
Other manufacturing expenses	2328*	1415*	166	124	163	136
Labour cost	2027	1501	166	137	64	59
Other expenses	4635	3364	183	161	84	69
Operating profits	7252	6633	462	412	406	396
Interest charges	2027	1501	233	189	70	59
Gross profits	5225	5132	229	223	336	337
Depreciation	2905	1681	117	102	82	66
Profits before tax	2320	3451	112	121	254	271
Tax provision	240	150	25	15	34	22
Profits after tax	2080	3301	87	106	220	249
Dividends	976	976	47	46	61	46
Liabilities/assets						
Paid up capital	2786	2785	190	190	244	244
Reserves and surplus	13666	12749	284	245	674	515
Long term loans	—	—	597	536	188	221
Short term loans	17006**	14013**	621	424	179	133
Other liabilities	10069	7281	754	458	198	184
Gross fixed assets	18792***	18632***	1814	1533	951	917
Accumulated depreciation	—	—	885	768	306	224
Inventories	6773	4752	1037	663	212	224
Of which finished goods	5935	3977	937	596	159	157
Receivables	7515	5281	304	246	337	207
Loans and advances	7461	4699	135	134	243	111
Cash and bank balances	2666	2119	40	41	34	46
Investments	852	848	10	—	—	—
Other assets	835	1111	2	3	13	14
Total liabilities/assets	44895	37442	2446	1853	1483	1297
Key financial ratios						
Turnover ratio	0.88	0.74	0.95	1.14	0.61	0.55
Return on sales %	13.26	18.46	20.89	10.59	37.21	47.27
Return on investment %	11.64	13.71	9.36	12.03	22.66	25.98
Return on equity (%)	12.64	21.25	18.35	24.37	23.97	32.81
Earning per share	7.46	11.84	4.59	5.57	8.01	10.32
Dividend (%)	54.38	50.40	25	25	25	—
Book value per share (Rs)	35	35	24.98	22.90	33.40	27.60
Current market price	168.75	—	46.25	—	81.25	—
P/E ratio	22.62	—	10.08	—	10.14	—

* Total figure of manufacturing expenses as in abridged accounts.

** Rs 7760 lakh (Rs 7407 lakh previously) as debentures.

*** Net block, inclusive of capital work-in-progress.

Total stocks .. Includes raw material stock.

STATISTICS

Index Numbers of Wholesale Prices (1981-82 = 100)

	Weight	Latest Week 21-8-93	Variation (per cent)						
			Over Last Month	Over Last Year	Over March 27, 1993	1992-93	1991-92	1990-91	1989-90
All Commodities	100.0	243.7	1.2	6.7	4.5	9.8	13.7	10.3	7.5
Primary Articles	32.3	248.9	2.2	3.4	7.2	7.3	18.1	13.0	2.2
Food Articles	17.4	284.0	1.8	3.0	5.8	12.3	20.2	11.8	1.2
Non-food Articles	10.1	242.6	3.6	1.3	8.1	-0.6	18.0	17.0	3.6
Fuel, Power, Light and Lubricants	10.7	254.3	—	18.8	3.4	14.1	13.2	12.3	3.6
Manufactured Products	57.0	238.7	0.9	6.5	3.2	10.5	11.3	8.4	11.3

Cost of Living Indices

	Base	Latest Month 1992/93	Variation (per cent)						
			Over Last Month	Over Last Year	Over March 1993	1992-93	1991-92	1990-91	1989-90
Industrial Workers	1982 = 100	246 ⁵	0.4	5.1	1.2	9.9	13.5	11.2	6.5
Urban Non-Manual Employees	1984-85 = 100	205 ¹	—	6.8	6.8	10.4	13.5	11.0	6.9
Agricultural Labourers	July 60 to June 61 = 100	1,039 ⁴	-1.3	-0.7	-1.3	12.3	19.3	7.5	3.2

Money and Banking

	Unit	Latest Fortnight 23-7-93	Variation (per cent in brackets)						
			Over Last Month	Over Last Year	Over March 31, 1993	1992-93	1991-92	1990-91	1989-90
Money Supply (M ₁)	Rs crore	3,84,218	3,162 (0.8)	43,855 (12.9)	21,553 (5.9)	46,316 (14.7)	49,560 (18.5)	34,486 (14.9)	37,457 (19.4)
Net Bank Credit to Government Sector	Rs crore	1,95,620	5,877	25,700	19,531	16,274	24,589	23,048	20,676
Bank Credit to Commercial Sector	Rs crore	2,19,599	-691	21,890	3,225	24,389	24,173	21,443	23,822
Net Foreign Exch Assets of Banking Sector	Rs crore	28,616	1,253	5,306	2,935	6,155	10,098	1,915	-149
Deposits of Scheduled Commercial Banks	Rs crore	2,79,598	2,363 (0.9)	33,515 (13.6)	12,451 (4.7)	36,389 (15.8)	38,217 (19.8)	25,583 (15.3)	26,809 (19.1)
Advances of Scheduled Commercial Banks	Rs crore	1,55,003	-512 (-0.3)	19,389 (14.3)	3,949 (2.6)	25,462 (20.3)	9,291 (8.0)	14,848 (14.6)	16,734 (19.8)
Foreign Exchange Assets (excluding gold)	Rs crore	22,994	1,157	6,791	2,798	5,385	10,223	-1,383	-795
	US \$ mn	7,347	395	971	880	746	3,383	-1,137	-854

Index Numbers of Industrial Production (1980-81 = 100)

	Weight	Latest Month (May 93)	Averages for*		Variation (per cent)					
			1993-94	1992-93	1992-93	1991-92	1990-91	1989-90	1989-90	1989-90
General Index	100.0	213.2	210.1 (1.5)	207.0 (5.9)	1.5	0.0	8.6	8.7	7.3	7.3
Mining and Quarrying	11.5	213.0	212.5 (-7.7)	230.2 (12.3)	1.9	0.1	6.3	7.9	3.8	3.8
Manufacturing	77.1	202.4	199.0 (1.9)	195.1 (4.9)	0.7	1.5	8.6	8.7	7.9	7.9
Electricity	11.4	286.8	284.1 (7.9)	263.2 (5.9)	4.9	8.5	10.8	9.5	7.7	7.7
Basic Industries	39.4	..	..	..	..	3.8	5.4	9.9	5.6	5.6
Capital Goods Industries	16.4	..	..	..	..	17.4	22.4	7.0	15.9	15.9
Intermediate Goods Industries	20.5	..	..	..	..	6.1	4.3	11.5	4.8	4.8
Consumer Goods Industries	23.6	..	..	..	..	10.4	6.3	4.2	6.5	6.5
Durable Goods	2.6	..	..	..	..	14.8	1.7	12.0	7.8	7.8
Non-Durable Goods	21.0	..	..	..	..	9.4	7.5	2.5	6.2	6.2

Foreign Trade¹

	Unit	Latest Month (June 93)	Cumulative for*						
			1993-94	1992-93	1992-93	1991-92	1990-91	1989-90	1988-89
Export	Rs crore	5,147	16,073	11,598	53,351 (21.1)	44,042 (35.3)	32,553 (17.6)	27,681 (36.8)	20,232 (29.1)
Import	Rs crore	6,156	17,018	16,058	62,923 (31.5)	47,851 (10.8)	43,193 (22.0)	35,416 (25.4)	28,235 (26.9)
Balance of Trade	Rs crore	-1,009	-945	-4,460	-9,572	-3,809	-10,640	-7,735	-8,003

Employment Exchange Statistics

	Unit	Latest Month (Dec 92)	Cumulative for*						
			1992	1991	1992	1991	1990	1989	1988
Number of Applicants on Live Register	Thousand	36,759	36,759	36,300	36,759	36,300	34,632	32,776	30,050
Number of Registrations	Thousand	397	5,302	6,238	5,302	6,238	6,541	6,576	5,963
Number of Vacancies Notified	Thousand	40	421	460	421	460	490	599	544
Number of Placements	Thousand	24	240	254	240	254	266	289	330

National Income

	Unit	1992-93	1991-92	1990-91	1989-90	1988-89	1987-88	1986-87	1985-86
Gross Domestic Product (current prices)	Rs crore	..	..	3,50,899	2,94,765	2,60,03	2,33,799	2,08,533	1,86,723
Gross Domestic Product (1980-81 prices)	Rs crore	2,21,168 (4.2)	2,12,316 (1.2)	1,88,009	1,70,205	1,63,271	1,56,566	1,50,433	1,44,865
Per Capita Income (1980-81 prices)	Rupees	2,222 (2.2)	2,174 (-1.1)	2,069	1,902	1,871	1,844	1,813	1,790

* Up to the latest month for the current year and for corresponding period last year. . . . Not available.

Notes: (1) Superscript numeral denotes month to which figure relates, e.g. superscript¹ indicates that the figure is for January and so on.
(2) Figures in brackets denote percentage variations over the comparable period of the previous year.

Investment, Speculation and the Gambling Instinct

Arun Ghosh

The emerging behemoth of international finance capital is not interested in long-term investment; its sole concern lies in taking short positions, in making a killing on currency speculation and, of late, in portfolio investment, again with a view to making quick capital gains. It is in this whirlpool of world speculation that we have suddenly decided to 'globalise' the Indian economy.

THE instinct to gamble is probably as old as man can remember. The *Mahabharata* tells us of Yudhishtira gambling away his kingdom, and later even his wife's honour. Columbus' voyage to the Americas was a gamble. At a time when the popular belief was that the earth was as flat as a pancake, he gambled on reaching India by travelling westward, and *not* eastward, even though he *knew* India lay to the east of Spain. And of late, Oscar Morgenstern has made gambling an exercise in scientific exploration by applying to all economic activities the rigours of the theory of probability.

Nonetheless, there still remains a world of difference between investment—even though real investment still remains a function of 'expectations'—and speculation, where profits are to be made from upswings and downswings in prices (of goods as well as of financial claims to assets). And since, in terms of neoclassical economic theory, equilibrium between market demand and supply results from greedy individuals (in the form of both buyers and sellers) all trying to maximise their gain (and their individual welfare), we have market supplies dependent on investment, which in turn depends on conditions of market demand consistently exceeding market supply, making the sellers want to maximise their gain by making the required investment to produce the goods in short supply.

We are, of course, abstracting and shying away from a lot of assumptions, including the availability of 'information' (among all buyers and sellers), and a lot of other factors (defined by economists as 'externalities'). But let us sidetrack these issues for the moment, and concentrate on a situation where information is available to all, and the problem of 'externalities' does not exist. We would introduce these complexities later. But even in a world of perfect competition—implying a large number of buyers and sellers, all of them well informed—speculation cannot be ruled out. In fact, the very act of 'innovation'—which, according to Joseph Schumpeter, is the mainspring of human progress—is speculative. A man who innovates, who reorganises production, can

never be 100 per cent certain of being successful. Frank Knight had opined (long ago) that in totality, entrepreneurial losses exceed entrepreneurial profits (see his 'Risk, Uncertainty and Profit'). Schumpeter was more rigorous. He merely felt that progress, which depended on 'innovation' (be it in the method of production or of the organisation of production), always occurred in waves, leading to periods of depression and revival. An innovator may put out of business his rivals, who would lose out and close down. The innovator may prosper, but the economy would suffer a downturn. Later, other entrepreneurs would imitate the successful innovator, the economy would boom (because the new method or organisation of production would reduce costs), until some other innovator comes along to put out of business the existing (profitable) enterprises.

So far so good. And as Keynes reminded us (in his *General Theory*) "Speculators do no harm as bubbles on the steady stream of enterprise". But the problem begins to get out of hand when all investors turn speculators. Again, to continue Keynes' description: "But the position is serious when enterprise becomes the bubble on a whirlpool of speculation. When the capital development of a country becomes the by-product of the activities of a casino, the job is likely to be ill-done" (Keynes, *General Theory*, MacMillan, 160, p 159).

Why do I keep harping on this theme again and again? The theory of Rational Expectations somehow tends to shade off the problem of speculation as a separate, distinct activity; investment and speculation are both supposed to be governed by the theory of rational expectations. That may have made some sense in a situation of falling profits (as Frank Knight feels is the general case in the process of industrialisation). But then, as we would see later, the situation is now materially different. But let us first turn from generalities to the Indian situation.

Modern industrial capital was virtually unknown in India until the second half of the 19th century. What capital existed came from trade (for the landowning classes mere-

ly lived it up, and did not seek to expand their capital). In fact, all of the industrial houses—the large ones at any rate—made their money from trade, quite a few of them from money-lending. So, the general tradition in India has, by and large, been to make a killing from trading profits, wherein speculative purchases, stock holding, and release of stocks after prices have risen, have been the standard practice. Long-term industrial investments were few and far between. The British invested in jute mills in Bengal, and the Parsis and Gujaratis in cotton textiles mills in the western part of country. Some sugar factories came up in Bihar and UP, and later in the south, and that was that. Apart from the—TISCO, started in 1907, there has been no instance of any pioneering long-term investment—with a view to making long-term profits—in the Indian industrial scene, and the Steel Corporation of Bengal only followed later, on the example of the TISCO. There were a few railway and ordnance factories, and, barring a few isolated cement plants put up here and there, that was the sum total of industrial investment in India until the second war. (Incidentally, I am not counting the tea and coffee gardens as part of industrial development.)

This, then, was (by and large) the industrial scenario in India when Adolf Hitler invaded Poland on September 3, 1939. One can truthfully say that Indian capital, until

TABLE 1: DEPOSITS WITH BANKS

(In US \$ billion)

	Total	Increment over the year	
		Actual	Per Cent
End of 1986	3740.7		
1987	4342.5	+601.8	+16
1988	4778.6	+436.1	+10
1989	5463.5	+684.9	+14
1990	6071.8	+603.3	+10
1991	6017.1	-54.7	-1
1992	9197.6	+3180.5	+3

Source: BIS, Annual Reports.

TABLE 2: DEFICIT IN CURRENT ACCOUNT OF BALANCE OF PAYMENTS

(In US \$ billion)

	Industrially Developed Countries	Developing Countries	All Countries*
1986	-29.2	-50.7	-71.1
1987	-62.4	-9.7	-58.5
1988	-55.4	-29.7	-76.9
1989	-81.5	-22.0	-100.5
1990	-104.9	-21.3	-143.2
1991	-20.5	-81.9	-100.7
1992	-38.5	-78.4	-124.3

Note: * Total includes data for 'countries in transition' (mainly, east European countries).

Source: IMF, op cit, p 161.

the second world war, was primarily trading capital, and trading capital is (by definition) more attuned to speculative activity than industrial capital (Schumpeter's characterisation of the process of industrial development notwithstanding).

Came the end of the war, and the industrial magnates in India drew up the famous Bombay plan wherein large investments were to be made by the state, not only for the development of the infrastructure but almost all equipment manufacturing and intermediate goods industries. The Indian industrialists were content to manufacture consumer goods required by the people of India, for which they demanded protection from foreign goods import.

Came the Second Five-Year Plan, and the Mahalanobis model, and the Indian industrialisation effort got under way, may be with many kinks and warts. But, let us remember, there was no industrial capital worth the name in India, in 1955, and whatever the successes or failures of the Indian plan effort, by 1978-79, the domestic savings rate in India had exceeded 24 per cent of the GDP (as compared to 10 per cent in 1950-51); and many of the erstwhile trading houses had emerged as giants of industrial houses, and many new industrial entrepreneurs had mushroomed.

Let us go back in time to the international scenario from the mid-1970s. Suddenly, with the emergence of petro-dollars, there emerged large surpluses of investible funds, looking for placements. (As a matter of fact, the process had started much earlier, because of the large deficit in the US balance of payments, and the emergence of a large Euro-dollar market, which had already started having deleterious effects on domestic monetary and economic policies of the European countries.)

The amount of petrodollars—increasing by several hundred billion dollars (or more) every year, has brought about a sea change in world financial markets. Let us get a few facts straightened out. According to the Annual Reports of the Bank for International Settlements (which keeps a tab on OECD countries' finances, money flows and banking activities), the deposits of commercial banks over the past seven years have an interesting story to tell. Let us recount these figures (Table 1).

It would be seen that barring the last two years, global bank deposits have been increasing at a rapid rate. At what rate has world output and world trade grown? Here, we seek recourse to the *World Economic Outlook* (May 1993) published by the IMF, with the cautionary note that a good part of the increase in world trade (at least insofar as the developing countries' deficit is concerned) has been financed out of official transfers (official development assistance or ODA).

Unfortunately the IMF has now taken to certain subterfuges (like focusing only on

percentage changes from year to year, without any mention of the actuals). So let us take the total balance of payments deficit on current account (in billion US dollars) over the period we are examining (Table 2).

The reason for separately indicating the deficit of developing countries is that a substantial part of their deficit is funded by ODA, and of late, i.e., after the experience of the 70s, banks have been studiously avoiding the financing of trade deficits of developing countries. In fact, one may assume that bank deposits have had little or no role to play in the financing of balance of payments deficits.

Where, then, are these banking funds going? Between 1986 and 1992, over a period of six years, bank deposits increased

by \$2,457 billion, or by close to \$410 billion per annum (including the decline in 1991 and the relatively small increase in 1992). And these are not the only funds seeking placements. *The Economic Times* (New Delhi, August 27, 1993) has a lead feature story on George Soros 'the man who moves markets', the man described as one who was almost single-handedly responsible for forcing the UK to opt out of the ERM, by making a run on sterling which even the Bank of England could not withstand. Soros's 'Quantum Fund' (with \$4.2 billion in assets) made a gain of 68.6 per cent in 1992; and since its creation in 1969, has had an average return of 35 per cent per annum. Where were these profits made, and at whose expense? One should ask the Bank of England.

TABLE 3: STOCK MARKET ACTIVITY IN SELECTED COUNTRIES

	In Billions of US Dollars		Turnover As Per Cent of GDP		As Per Cent of Capitalisation	
	1986	1991	1986	1991	1986	1991
Hong Kong	15.3	43.0	40	53	28	35
Korea	10.9	85.5	10	30	78	88
Malaysia	1.3	10.6	5	22	9	18
Philippines	0.4	1.5	1	3	20	15
Taiwan	18.1	365.2	24	201	117	290
Thailand	1.1	30.1	3	32	40	84
France	51.5	118.2	7	10	34	32
Germany	135.7	818.6	15	49	53	208
Japan	1145.6	995.9	58	30	62	32
UK	132.9	317.9	24	31	30	32
USA	1795.9	2254.9	40	42	68	54

Source: IMF, op cit, p 18.

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NGOs AND WOMEN'S DEVELOPMENT IN RURAL SOUTH INDIA

A Comparative Analysis

VANITA VISWANATH

Using firsthand observation and interviews with rural Indian women, development practitioners, and government officials, Dr. Viswanath evaluates and compares the roles of two nongovernmental organisations in promoting women's development. Focusing on the India Development Service and Grama Vikas—two NGOs that operate programs specifically targeting rural women in the poor, agricultural communities of Karnataka State—she asks: What are their goals, and how are those goals established? Have the strategies and programs designed by the NGOs for meeting those goals been effective? Are the NGOs helping poor women to improve the quality of their lives?

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TABLE 4: Savings and Investment, 1992
(As percentages of GDP)

	Saving	Investment	Resource Balance*
World	21.5	22.6	
Industrial countries	19.0	19.6	+0.1
Of which USA	13.9	15.2	-0.7
European Community	18.9	19.9	-0.1
Japan	34.4	31.1	+2.3
Developing countries	24.6	26.2	-1.3

Note: * After adjustment for unrequited transfers, factor income from abroad, etc.

Source: IMF, op cit, pp 193-94

And George Soros is merely one of a large tribe of financiers of today, whose interest is not long-term investment, but in making money on 'short positions', in speculation on currency fluctuations generally, in 'playing the market' occasionally, and on arbitrage as a stand-by back-up for speculation. International finance capital has now moved on to a stage where its major interest lies in making only speculative profits. Here is Oscar Morgenstern's game theory applied in real life, never mind what the consequences are to the countries—and their central banks—which have to face the 'rational expectations' (?) of a large number of determined speculators, with more funds at their command than most central banks can muster.

Where does this large behemoth of international finance capital end up? Apart from speculation in currencies—which is their primary obsession—and 'arbitrage' operations, there are properties to be bought up; corporate entities to be taken over; and naturally, property (and equity) values have been rising all through the 80s.

Let us again turn to the *World Economic Outlook* (May 1993) published by the IMF. Great store is placed by the IMF on the increased 'stock market activity' in some of the newly industrialising countries (NICs), as compared to industrially developed countries. Table 3 has some valuable information in this regard.

In other words, what is being hailed as 'budding capitalism' in the NICs is essentially intrusion—no, invasion would be a more apt description—of finance capital in the world of investment. Speculation is no longer a bubble on the stream of investment (to use Keynes' words); investment is a bubble in the whirlpool of speculation. In Taiwan, in 1991, total turnover in the stock exchanges was 201 per cent of GDP, and 290 per cent of the total capitalised value of the total value of equity in the country. These transactions are obviously in the hope of making 'capital gains', not long-term investment. That, unfortunately, is getting to be a fact of life even in India lately; but it is certainly not a healthy tendency.

So, where do the steadily increasing funds in the Euro-Currency markets find placement? To some extent, eastern Europe today is a big draw. In 1993, China is expected to

pull in \$15 billion of new investment funds. The Asian Giants (NICs) have also been attracting investment funds. Even so, let us seek recourse to the IMF figures once again. Let us take a quick look at savings and investment in different parts of the world in 1992. Table 4 may be seen in this context.

For the world as a whole, a slightly higher rate of investment than saving (ex-ante) can only imply a mild expansionary impulse, though these figures are not ex-ante but ex-post. Nevertheless, let us take a look at the savings rate of developing countries generally vis-a-vis the industrially developed countries (other than Japan). Where the developing countries saved 24.6 per cent of GDP, the USA saved only 13.9 per cent, and all industrial countries (including Japan) saved only 19 per cent of GDP (Japan saved 34.4 per cent). The lesson is obvious. We need to emulate Japan, not the USA.

A significant part of the savings of developing countries (e.g. the oil revenues of OPEC countries) has regrettably sought placements traditionally only in developed countries. But then, that is not the main point under discussion in this essay; the point is the worrisome, overblown size of international finance capital, far in excess of the needs of financing trade expansion. Nor is this emerging behemoth interested in long-term investment; its sole concern lies in taking only short positions, in making a killing on currency speculation and, of late, in portfolio investments, again, with a view to making quick capital gains. To say that such funds are a 'destabilising' force would be a mild statement.

Global Environment Facility: An Update

GOVERNMENTS look likely to decide by December of this year on their contributions to the core fund of the Global Environment Facility, provided the restructuring of the GEF is decided at the same time. Although no final decision has been made, there was strong support for a GEF II core fund that is two or three times the size of the pilot phase, i.e. 2-3 billion SDR (Special Drawing Rights—the equivalent of approximately US \$ 2.8-4.2 billion). The replenishment period will last between three and five years.

The GEF would have to work in close co-operation with the bodies set up to monitor the Conventions on Climate Change and Biodiversity. In the first stage, the chairman projected that GEF programmes would continue at about the same pace or at a little higher level than in the pilot phase. Stage 2 would commence once the conferences of the parties start to function, and the GEF is chosen as the permanent funding mechanism for the conventions. In this stage, the pace of activities would increase considerably.

For its September meeting in Geneva, papers are being prepared on funding

What is the relevance of an action plan? Briefly, it is in this whirlpool of world speculation that we have suddenly decided to 'globalise' the economy. (Mark the difference: China has not globalised its economy; it has allowed only selective investments; and yet it has attracted \$12 billion of long-term foreign investment in 1992 and is expected to take in \$15 billion in 1993.)

What does one expect speculative funds to do? Make money on 'arbitrage', primarily. International finance capital is not prone to 'speculate' needlessly; its speculative activity may be expected to be attuned entirely in its own favour with the chips all stacked and tilted towards maximising its profits. International finance capital is not out to perform charity.

To end this essay, I am tempted to quote again from Keynes: 'I expect to see the state, which is in a position to calculate the marginal efficiency of capital goods on long view and on the basis of the general social advantage, taking an ever greater responsibility for directly organising investment; since it seems likely that the fluctuations in the market estimation of the marginal efficiency of different types of capital, calculated on the principles I have described above, will be too great to be offset by any practicable changes in the rate of interest' [Keynes, *ibid*, p 164]. But then, which 'supply side' economist has any time (or patience) for Keynes today?

One wonders, in the above background, is it too late for us to turn back? Or are the fetters of 'conditionalities' imposed by the IMF not what they are made out to be, but really shackles of heavy iron?

modalities and burden-sharing. Incremental costs and their implications for the financing of GEF II will also be discussed, as will alternatives to the replenishment sizes and periods under discussion.

On June 24, an informal 'tripartite' meeting was held at the United Nations in New York. Its focus was NGO participation in the GEF, following discussions in Beijing. Seven country representatives, five NGO representatives and three from the implementing agencies were present. They agreed that it was time to 'professionalise' and systematise the GEF/NGO relationship. They agreed on the need for an action plan to 'flesh out' and help implement recommendations contained in the study report discussed in Beijing. An informal tripartite task force should be appointed, they said, with individual members chosen from delegations, NGOs and the implementing agencies, to work on such a plan. Further to this, they also decided that such a task force should be charged with preparing for the GEF/NGO consultation scheduled for December.

—The Independent Sectors' Network, July 1993.

Politics of Religious Hate Beyond the Bills

Anil Nauriya

There are several valid reasons to examine and perhaps modify many of the provisions of the two deferred bills before enacting them into law, but to object per se to changes in the law because of a claimed preference for an undefined 'political' answer to the religious sectarian challenge is neither sound policy nor sound politics. Meanwhile, there are two important legislative changes that the government has not considered so far and which it can introduce independently of these bills.

I

WHATEVER the merits or otherwise of the legislation on 'religion and politics', whose consideration has now been deferred, it was not only a tactical but also a factual error to have described the legislation as intended 'to delink religion and politics'. This description has been repeatedly used by government spokesmen: the union minister for parliamentary affairs resorted to it again as recently as on August 30 while suggesting that there might be a special session of parliament to consider at least one of the bills.

What the bills in fact sought to do was to create hurdles in the way of the politics of religious hate. This was not clearly brought home by the government side. There is no hint of the much-bruited 'delinking' in the legislation; even the expression does not occur anywhere in the bills and it is doubtful if religion and politics can be 'delinked' any more than human beings can be delinked from politics. The notion of delinking appears to have been introduced mainly in government press-notes.

In the last 10 years, whenever the question of laws to deal with religious sectarianism in politics has been taken up under the auspices of the bar or associated institutions, there has been a tendency to speak about such delinking. It would not be surprising if it were ultimately discovered that the expression had been introduced by the lawyer-members of the Congress(I). Delinking religion and politics might be as difficult, if not as undesirable, as delinking ethics and politics. But the practical problem and more tricky question is whether delinking is a workable or a sensible concept at all. Delinking implies a two-way snapping of connection: that is, religion would not play a role in politics and vice versa. But the political process can, and often must, deliberate and legislate on or touching religion.

The British parliament and the British Indian legislature enacted laws at one time or another concerning Hindu widows, Hindu wills, Gurdwaras, Christian marriage and succession to property, the Shariat and the dissolution of Muslim marriages. Is the sovereign Indian legislature to give up its authority to do so? This is precisely what religious sectarian forces have demanded from time to time of the secular state.

In the wake of the Shah Bano controversy, conservative sections of Muslims claimed that the Supreme Court of India had no right to make even an incidental reference to the Holy Quran in such a way as to amount to a possible interpretation of it. It is a different matter that the court had before it, and followed, the interpretation offered by authorities of such eminence as Allama Yusuf Ali. Similarly, in the case of the Ayodhya dispute, the Vishwa Hindu Parishad and its allies repeatedly based their argument on their alleged faith about the location of Rama's birthplace, which matter they claimed was beyond the reach of the courts and of legislation.

Delinking is a loose and inaccurate concept because the two-way disconnection that it implies brings into question the secular power to legislate on matters affecting general welfare through the personal law concerning a religious community or the regulation of certain kinds of places of worship.

It is all the more an unfortunate error because while rightly seeking to interdict religious interference and political appeals based on religious sectarianism, the bills were made to appear also as making an unnecessary assault on a humanist expression of religiosity. The distinction is an important one and Left parties have also acknowledged it in recent years in their discussions on Vivekananda and, more gradually but more relevantly, on Gandhi

and, sub silentio, Azad. The latter two, along with many others like Hakim Ajmal Khan and M A Ansari, are in that humanist stream emerging out of religiosity which was ever associated with the nationalist consciousness and is exemplified also by such figures as Joseph Mazzini. This tradition is central to politics: to exclude it or to appear to exclude it is to launch on an enterprise which is ill-advised and at all events unnecessary.

The bar sought to be placed through the bills on political organisations assuming religious names, on the other hand, was a step of some significance in independent India. The constituent assembly had, with no fuss at all, put to an end the system of religion-based electorates, institutionalised, *inter alia*, by the Minto-Morley scheme of 1909. But neither the constituent assembly (legislative) nor subsequent parliaments took the next logical step of dismantling and prohibiting or simply discouraging the kind of political organisations or institutions that came to receive sustenance from the thought processes reflected in the 1909 scheme. The problem received only episodic legislative attention in spite of an event like the assassination of Gandhi. This was presumably because an earlier political leadership felt confident of tackling the problem 'politically'. But the complacent definition of politics as excluding the domain of law seems to be mistaken; law is often little more than a weapon of politics. Without politics it comes to naught, but politics without a legal expression and instrument is often ineffective. The colonial rulers knew this, of course, but our legislators continue to overlook this fact. Thus while the colonial rulers were keen enough to use law to foster inter-religious divisions, the legislature in independent India was unnecessarily coy about using law to facilitate the cementing of communities and to discourage religious sectarianism. George Fernandes, in a dissenting note to the Joint Committee Report on the now deferred bills, strikes the same attitude. He does this by first postulating a mutual exclusion between a political response and a legislative response and then opting loudly for the former course. There are several valid reasons to examine and perhaps modify many of the provisions of the deferred bills before enacting them into law; but to object *per se* to changes in the law because of a claimed preference for an undefined 'political' answer to the religious sectarian challenge is neither sound policy nor sound politics.

It is to be hoped that any such legislative initiative in the future will, firstly, not again be misprojected as an attempt to 'delink'

religion and politics and, secondly, will also be seen in the larger historical perspective of events particularly since the earlier part of this century.

The more substantive criticism of the bills related to the possibility of misuse of the power sought to be assumed: this was a valid apprehension at least in some respects like deregistration of political parties in certain circumstances and the possible exclusion of candidates by the returning officer even prior to an election. It is only right that these features of the legislation be more widely considered. This does involve the possibility that, having been deferred once, the bills may not be revived at all. But the bills are not the last word in dealing with communalism. It is enough for the time being that they are debated so as to increase, for one thing, public consciousness of the supra-legal existence of major political parties.

II

Meanwhile, there are two legislative changes that the government has not considered so far and which it can introduce independently of the bills it had sought to enact.

At present the promotion of hatred on grounds, *inter alia*, of caste or religion amounts to a 'corrupt practice' in electoral law when this is done by, or with the consent of, the candidate concerned. This can, under the existing law, be a ground in an election petition to be filed after the election; on this basis the election of the erring candidate can be set aside (see Section 123(3A) of the Representation of the People Act, 1951).

There is one lacuna here which can be filled even without going so far as the bills did. In fact the bills did not address themselves to Section 123 at all. The existing position is that it is only after a person becomes a candidate, by holding himself out as such or by filing his nomination papers, that his conduct in relation to promotion of religious disharmony comes under scrutiny. In other words, a person might foster religious sectarianism for political purposes for an entire year, or for an entire legislative term, refrain from doing so after filing his nomination paper, and escape the rigour of the electoral law. If, for example, a political leader organises a provocative 'yatra' through sensitive areas, and incites religious sectarian violence, but after filing his nomination papers assumes a statesman-like posture for the duration of the electoral process, his election cannot be set aside through an election petition on account of the corrupt practice of promotion of religious hatred. This legal position is inadequate and deserves the attention of the many worthy commentators who have declared that the existing laws to deal with communalism are sufficient. Political leaders create particular images for themselves

over a period of time. These images are created in order to be 'translated into votes' at the appropriate time; the images are sufficiently long-lasting and survive a temporary tactical change in posture after the filing of nomination papers. Statements made after the filing of nomination papers are more guarded and ambiguous so as to escape the intent and purpose of the law. What the law clearly interdicts is thus sought to be circumvented through a hypocritical posture usually adopted after the filing of nomination papers.

The law needs to be amended to provide that in reckoning the corrupt practice of promoting religious hatred, the relevant period to be considered would include, to start with, at least the 12 months preceding the filing of the nomination papers (in addition to the period thereafter as at present). This amendment would bring the pre-election conduct of a candidate under scrutiny; but the provision would be invoked, as such provisions are, only in the course of an election petition filed after the election is completed. This should not be confused with the provision which was sought to be introduced by the now deferred Constitution-amending bill under which a pre-election disqualification was to be introduced by amending Articles 102 and 191 and the candidate could, on one view, have been excluded by the returning officer even prior to the actual election. Incidentally the Constitution-amending bill would also have reinforced the lacuna in the Representation of the People Act by not clearly specifying the duration of the candidate's conduct which would come under scrutiny for purposes of the disqualification.

III

The bill to amend the Representation of the People Act, 1951 had provided for cancellation of the registration of a political party in certain circumstances provided for in the bill. These circumstances were amplified in the report of the joint committee to specifically mention the situation where a political party attempts to promote religious disharmony.

Deregistration is of course a drastic step. Even if there be parties deserving of such harsh treatment, the provision could admittedly be much abused. The registration of political parties used to be done, till June 1989, within the terms of the Election Symbols (Reservation and Allotment) Order 1968 (for short, the Symbols Order) issued by the Election Commission under, *inter alia*, the power conferred by Article 324 of the Constitution. With effect from 1989 the provisions regarding registration were incorporated into the Representation of the People Act, 1951. It is the cancellation of such registration that was sought to be provided for by the bill to amend this act.

It is worth considering whether a less drastic provision would not, in its practical

impact, be nearly as effective as a deterrent. There is another concept—that of *recognition* of a political party (as distinct from *registration*) which is contained in the Symbols Order. Registered political parties are thereby further classified into *recognised registered* parties at the state and national levels and *unrecognised but registered* parties. The process by which the Election Commission accords *recognition* to a political party is based on certain criteria laid down in the Symbols Order. A party receives recognition as a state party if it has been engaged in political activity for a continuous period of five years and satisfies certain requirements as to the obtaining of a specified proportion of seats in the state legislature, or in the Lok Sabha from the concerned state, as well as a certain proportion of the valid votes polled. Once a party achieves the status of 'state party' in four or more states, it attains the status of a 'national party'.

The practical advantage which a party gets on *recognition* as a state or national party is that it is allotted a pre-determined election symbol. All candidates of the party in the given state, if it be a state party, and in the country as a whole, if it be a national party, gain the right to a common electoral symbol with which they can proceed to the hustings.

This facility is not available as a matter of right to *unrecognised* political parties even if these be registered parties. However, wherever possible even candidates of such parties are given a common electoral symbol. The process of *recognition* of parties has the practical effect of conferring a twofold privilege upon them and upon the candidates put up by them (as against others, including *unrecognised registered* parties and independent candidates). This is, first, that the recognised parties and their members have a pre-determined election symbol which they can popularise well before an election, and in fact do so popularise throughout the course of their political activity. Secondly, and this is an advantage mainly over *unrecognised registered* parties, the *recognised* party can, at election time, organise publicity material in bulk, using the party symbol. This material can then be sent by the party across an entire state, and even the country, with the confidence that it would be useful to its candidates everywhere. If the candidates of a recognised party were not sure of having a common symbol and if there were a chance that candidates of the party would have to use, say, the bicycle as a symbol in Constituency A and the inkpot in Constituency B, it would be more difficult for it to supply the same publicity material to all its candidates. The publicity material would then have to be specific to each candidate. (This could also perhaps help check some of the undemocratic consequences of Section 77 of the

Representation of the People Act 1951 under which election expenses undertaken by a political party are not considered as election expenses of the party's candidate for the purposes of the ceiling on election expenses.)

The 'common symbol' is therefore a substantial privilege given to a recognised party and its candidates. The granting of any privilege must be conditional upon the party concerned observing a certain code of ethics in its election campaign and upon the party functioning in a manner that it does not spread fanatical intolerance and hate among the people. It follows that the recognition granted to a party, or the fruits of that recognition, in the form of a common symbol for its candidates, should be withdrawn when a party, in the opinion of an independent authority, say, a high court, oversteps the bounds of such a code. The measure suggested here would not go so far as deregistration but would nevertheless result in withdrawal of a crucial privilege from the party. This can be provided for through appropriate amendments, made in consultation with the Election Commission, to the Representation of the People Act, 1951 and to the Symbols Order.

The matter can be approached in another way. In the US, a matter arose concerning the eviction of Blacks from a private park. At the time of the eviction, the manager of the park, who happened to be a city deputy sheriff, was wearing a sheriff's badge. The US Supreme Court held (378 US 130) that the wearing of the badge at the time of the eviction had involved the state machinery in the eviction and as such the eviction had been made by 'state action'. As 'state action' could not contravene the constitutional protection against racial discrimination, the manager's act was held to be in law.

When the Indian state allots a pre-determined electoral symbol to a political party and its candidates and when that symbol, which is a privilege granted over unrecognised parties and individual independent candidates, is utilised by a party which spreads hatred among citizens, this entwines the state in such activity. It is proper that in such circumstances, the privilege of a common symbol for its candidates should be withdrawn from the political party concerned. This can be done by withdrawing the recognition (without touching the registration) granted to the party. It can also be done by simply freezing the common symbol of the party's candidates and not allotting another common symbol in its place. The party's candidates would then have to contest the election on whatever symbol is allotted to each such candidate in each constituency. The candidates would, however, still mention, in accordance with the Conduct of Election Rules, 1961, their party allegiance, if they belong to a registered party, in the nomination paper filed by them.

Another consideration which might place in perspective the suggestion made above is this: The advantages which political parties, which are oligopolistic institutions and not entirely democratic in character, enjoy over independent candidates have increased manifold over the years because of the vast resources, including black money reserves, that major political parties have come to command. Nevertheless, in the early phase of Indian democracy there was a case for the allotment of definite, pre-determined common electoral symbols to the candidates of each political party. In an environment where there was much illiteracy, this enabled easy identification of a political party by the people. But as both literacy and political consciousness increase, the case for such

special treatment being accorded to the larger political parties is no longer so compelling. Continuing with the system of election symbols to identify individual candidates may still be a social necessity. But maintaining special and common election symbols for all candidates of particular political parties is no longer so necessary.

With political parties developing substantial links with criminal activity, which has become almost a necessary adjunct of all major political outfits, there is much to be said in favour of (a) ultimately phasing out the special electoral privileges given to major political parties, and (b) making to start with, the grant of such privileges dependent on stricter norms of political and electoral conduct.

Prescription for Disaster

Thomas George

Investing in health care for the poor in the manner in which the World Bank has proposed in the World Development Report, 1993 will fail because it does not attack the source of ill-health, which is poverty, in third world countries.

PROVOKED by the fact that 8 per cent of global income (\$ 1,700 billion) was being spent on health care worldwide, the World Bank, the keeper of the world's financial keys, has issued the sixteenth *World Development Report: Investing in Health*, with its recommendations on cost containment. It is remarkable that it is the paltry 10 per cent spent in the developing countries of Asia, Africa and the Far East that have come in for detailed analysis and the bulk of the recommendations.

The fundamental thrust of the WB's cost-containment policy is to reduce government involvement in health care. This is of a piece with standard WB preoccupations of reducing welfare measures, in order to reduce government spending and thereby taxes. However in this case, the Bank argues that such reduction in government involvement will actually increase the health status of the poor in the low income countries! A large part of the report is devoted to justifying this cruel hoax.

The Bank admits that government involvement is necessary in health care because, in the Bank's jargon, some health care activities are 'pure public goods'. What this actually means is that they are not profitable and so private entrepreneurs will not provide them. The other reasons for government involvement are: market failure and because some health care activities have 'positive externalities', i.e., there are spin-offs other than direct health benefits. As an example of 'positive externality', the Bank cites treatment of tuberculosis, which will prevent infection of healthy people, and which,

if left to individuals alone, will be unsuccessful due to high cost and long duration of treatment.

However, the Bank is eager to limit government activity to a narrow spectrum which it calls the 'essential clinical package'. The activities which merit inclusion in this package are: family planning, perinatal care, treatment of the sick child, treatment of tuberculosis and sexually transmitted diseases, and treatment of minor infection and trauma. This 'essential package' will cost the princely sum of \$ 60 billion annually for the entire developing world—just a little more than the amount (\$ 50 billion) spent on cigarettes annually in the developed world and about twice as much as the amount (\$ 31 billion) spent on beer in the US alone per year! All other care the Bank classifies as 'discretionary' to be provided only if finance allows. The Bank explicitly says that finances in the third world will not allow governments to provide much outside the essential package. This is a clever position. It simultaneously justifies the near-comprehensive public coverage given in most developed countries while denying the same to the people of the third world.

The Bank justifies this limitation on government activity saying that at present government finances are spread so thin that they are ineffective. Furthermore, the Bank feels that special interest groups within developing countries influence fund allocation so that most money is spent on secondary and tertiary care, whereas it would be more

effective if spent on primary care. Therefore 'redirecting' money to primary care is necessary and restricting access to government provided services is essential. The best way to restrict access is to provide only a little, otherwise the rich and powerful will appropriate the services at the cost of the poor.

TARGETING THE POOR: EASY PREY

This reasoning is absolute nonsense. Health care facilities in government institutions today are so shoddy that with rare exceptions, only the poor utilise them. What this 'redirection' will mean is that all access to basic surgical and medical care will be denied to the poor. The fact that most government institutions are located in urban areas does not mean that the rich use them. It only means that facilities now available to the urban poor will be denied them on the pretext of equity. The truly equitable solution would be to extend a reasonable level of services to the rural areas too; something that cannot be done if the Bank's recommendation of 'scaling back' government involvement is implemented. The Bank does not worry about the fact that a country like India spends a miserable 2 per cent of its budget on health care while lavishing 17 per cent on defence! Even an avowedly free market country like the US spends 13 per cent of its budget on health care. It views health care as being 'bestowed' by a paternal government and a generous ruling class, not as a right that people have worked for.

Furthermore, the Bank's contention that such 'targeting' will improve the health status of the poor is absolutely unfounded. The history of medicine reveals that the current major causes of disease and death in the third world, which the Bank itself enumerates as: communicable diseases, nutritional disorders, maternal and perinatal diseases were conquered in the west long before antibiotics and vaccines became available. The major reduction in infant mortality and increase in life expectancy resulted from an increase in food availability due to better wages of the working class and their improved bargaining power due to organisation. Diseases of poverty cannot be cured with medicines and 'targeting'; they need elimination of poverty through a more equitable distribution of the resources of a country. The WB seeks to maintain the political and social status *quo*, something which it virtually confesses when it says "providing health and education for the poor commands a degree of political assent that is altogether lacking for transfers of income or of assets such as land. Investing in the health of the poor is an economically efficient and politically acceptable strategy." The fact is that all measures which do not tackle the gross maldistribution of resources within the countries of the third world and among the countries of the world as a whole, will surely fail because they do not attack the source of ill-health in these countries which

is poverty, but seek instead to tinker with the symptoms, which are individual diseases. All they will achieve is reduction of morbidity and mortality due to a particular disease. Another one will immediately break out in its place thereby condemning the poor to a continuous cycle of poor nutrition and ill-health, while preserving the illusion that 'something is being done'. As long as that 'something' does not eliminate poverty, the basic cause of ill-health, it is of a futile gesture. This fact has been recognised for centuries. For example, the great pathologist Rudolf Virchow said "poverty was the breeder of disease and it is the responsibility of physicians to support social reforms that would reconstruct society according to a pattern favourable to the health of man... the treatment of individual diseases is only a small part of medicine. More important is the control of crowd diseases which demand social and, if need be, political action" (R Dubos, *Mirage of Health*, Anchor Books, Doubleday 1961, p 126).

RHETORIC AND REALITY

The WB labours long and hard to evade this basic reality. All its attempts to show that the poor suffer from ill-health due to factors like misuse of government funds, apathetic doctors, inefficient management, amount to concentrating on peripheral issues and refusing to look at the basic underlying cause of all these, viz, an economic system in which more than 30 per cent of the population are below the poverty line and the vast majority of the remainder are poor and a social system in which power is concentrated in the hands of a few. In such a system, these problems are predictable and inevitable. They can be solved only by radically restructuring social relations.

The truth of the above assertion is clear from the experience of China and of Kerala. China, with a per capita income which puts it in the low-income category has health indices equivalent to middle income countries. The obvious reason, which the WB does not mention, is the equitable distribution of resources in China which has eliminated starvation and over-crowding. In Kerala, despite a per capita income below the all-India average, health indices are well above the all-India average. The major drop in infant mortality in Kerala took place between 1951-1960, the time during which major land reforms, enforcement of minimum wages and child labour laws saw a marked improvement in the condition of the working class.

Even the 'essential' clinical package proposed is suspect. Three of the elements, family planning, perinatal care and treatment of sick children are directly connected with population control in the third world, a constant concern in the developed world since the 1950s, since they fear revolution among the 'starving millions'. The other two, treatment of tuberculosis and treatment of sexually transmitted diseases, are intimately

linked to acquired immune deficiency syndrome (AIDS), a major health threat in the developed world. Thus, the essential package has been tailored with the well-being of the developed world in mind and presented as a good fit for the third world!

The WB's projection of private enterprise in health care delivery as not only desirable, but the only way to achieve "equity, efficiency and customer satisfaction" is deceitful. Equity can never be achieved since delivery depends on capacity to pay and therefore it is axiomatic that the poorer sections of society will never have access to certain facilities. As for efficiency, the predominantly private sector medical system of the US spends eight times as much money per capita as the predominantly public sector UK and achieves only a similar level of health indices. Customer satisfaction is extremely poor in the US as many studies commissioned by the American Medical Association have shown. This is obvious also from the frequent litigation involving doctors in the US. Attempts at reducing coverage under the National Health Service in the UK by Margaret Thatcher were so unpopular that they had to be virtually abandoned. Several studies in Norway, France, Germany and Sweden have shown that the vast majority of the people favour retaining state-provided care.

The reasons are not far to seek. Since profit is the main criterion in private enterprise, private health care ever seeks to provide more expensive and more profitable services rather than what is necessary. The self-interest of the provider rather than the need of the patient becomes the prime governor of services with unhappy consequences. Any amount of market regulation is unlikely to eliminate distortions and frank malpractice, because, medicine is not a perfect science, knowledge is extremely limited on the side of the patient, and he is therefore, subject to exploitation. It will lead to unnecessary waste as everyone will rush to provide the most profitable service. Witness, for example, the number of private centres competing for cardiac (heart) patients in India and the consequent unhealthy practices. Medical care is certainly an inappropriate forum for market mechanisms.

The people of India should resist any attempt by the government to implement the WB proposals and reduce health care coverage. Although cloaked in a garment of concern for the poor, their real concern is with cost-containment, an inherent logic of structural adjustment. Locked in their cycle of lower taxes for the rich and hence lower government revenues available for social welfare, the WB has produced this voluminous report. The main aim is to reduce government health care spending while making it appear that this is actually in the interests of the poor. The truth of the matter is that this is yet another cruel hoax perpetrated on the defenceless poor.

Mismanagement of Fisheries Development

Ram Pratap Gupta

Mismanagement of pisciculture and marketing of fish from the Gandhi Sagar reservoir by the Madhya Pradesh Fish Development Corporation has had a negative impact on the local fisherfolk.

WITH the completion of Gandhi Sagar dam on Chambal river in 1960, with a reservoir of 22,500 sq km, high hopes were generated among the fisherfolk of the area. The high potential of fish production in the reservoir was expected to raise employment and income levels to new heights. After experimenting with different types of organisations for managing production and marketing of fish, this responsibility was handed over by the government to the Madhya Pradesh Fish Development Corporation (MPFDC) a public sector enterprise. Now, 14 years after the reservoir was created the fishermen of the area are a disappointed lot; all their hopes of higher levels of employment and income have been shattered to pieces and their share in the sales proceeds of fish has been extremely low.

The fish in the reservoir are caught by 1,500 fisherfolk organised in 15 co-operative societies. These fisherfolk are paid a fixed rate according to the species and weight of the fish. Members of these societies are mostly traditional fishermen of the area, called 'bhoi' and displaced persons from Bangladesh and some of them belong to scheduled caste and scheduled tribes. Maintaining and increasing fish production is the responsibility of MPFDC. Had it fulfilled this responsibility in the right spirit, it would have resulted in increased production in the long run along with decrease in year to year fluctuations. But we find that average annual production during the period 1979-80 to 1991-92 has been 538.3 tonnes with linear rate decrease by 7.25 tonnes per annum. This has resulted in a decrease of 95 tonnes in the period between 1979-80 to 1991-92. The inability of MPFDC becomes all the more clear, when we see that production figure of 880 tonnes in its first year of operation was never achieved in remaining 13 years of its existence. Similarly, no efforts were made by MPFDC to decrease the fluctuations in yearly fish production, the ratio of highest to lowest production level being 2.6:1. The decreasing potential of fish production of the reservoir is also clear if we look at the daily catch statistics during the last three years. The average daily catch was 707 kgs in 1990-91; 629 kgs in 1991-92 and 581 kgs in 1992-93. Decrease of production by 17.5 per cent in the last 13 years has played havoc with the employment and income level of fisherfolk of the surrounding area. Now, on an average, only 50 per

cent of the fisherfolk get employment in this profession. The inefficiency and irresponsibility of MPFDC become all the more obvious when we find that fish production increased at the rate of 10 per cent per annum during 1970-71 to 1977-78 period, when the responsibility was shouldered by Machhua Sahakari Sangh, the apex organisation of the fishing co-operatives.

Now the question that arises is about what were the factors responsible for the decrease in production in the last 13-14 years. To maintain and to increase the fish production, fingerlings are dropped by MPFDC in the reservoir. There have been large variations in the number of fingerlings dropped. The lowest figure was 4.20 lakh in 1986-87 and the highest was 34.33 lakh in 1990-91. This has resulted in large fluctuations in fish production. Moreover, the fishermen of the area have their own doubts about the number of fingerlings dropped in the reservoir. They fear that MPFDC gives exaggerated figure of fingerlings dropped and their doubts have some basis also. During the first four years of its working MPFDC dropped 18.38 lakhs of fingerlings per annum and obtained 669 tonnes of fish per annum. During the last four years, i.e., 1988-89 to 1991-92, the number of fingerlings dropped and fish produced was 21.8 lakhs and 547.3 tonnes per annum, respectively. Thus, in last four years MPFDC dropped 18.6 per cent more fingerlings to obtain 18.2 per cent less fish output. This gives sufficient grounds for doubting the figures given by MPFDC. Moreover, the MPFDC is also resisting the very simple and genuine demand of fishermen that their representative should be allowed to remain present at the time of dropping fingerlings and verify the number dropped. But the corporation has been reluctant to accept this for reasons best known to itself.

The MPFDC has made a negative impact on the economic condition of the fisherfolk. Before handing over of Gandhi Sagar reservoir to MPFDC, they were the producers and sellers of fish. Now under MPFDC they have become mere labourers; earning piece-meal wages. On an average, Rs 22.42 lakh per annum have been distributed as wages to fisherfolk during the period 1979-80 to 1991-92, giving them an average income of Rs 169.7 per month. Even this low income had wide fluctuations. The lowest income received was a petty sum of Rs 50 per month. The adverse impact of the working of

MPFDC on the income of fisherfolk becomes obvious when we look at figures of their share in the sales proceeds. During the period 1971-72 to 1977-78, when the marketing was done by their own apex organisation, they received 64.2 per cent of the sales proceeds; but under MPFDC they are receiving only 27.4 per cent of the sales income. It should also be remembered that in recent years MPFDC is selling fish at the collection centres through annual tenders, and hence is not incurring any expenditure on transport. Thus, the share of the fisherfolk in the sale price should have been still higher than what it was in the preceding period, but it was only about less than half of what it used to be. It is difficult to find another example of such exploitation of the producers by any public undertaking in India.

The MPFDC is earning huge profits through the sale of fish from Gandhi Sagar reservoir. While average annual wages paid to the fishermen were Rs 22.4 lakh, the profits earned per annum were Rs 31.6 lakh. During the period of Machhua Sahakari Sangh average royalty of Rs 7.9 lakh per annum was paid to the government. The higher level of the profits is the major factor which is forcing the government to pay no heed to the genuine demands of poor fisherfolk. But it should be remembered that the share of profits in the sale price is decreasing with time. The MPFDC did not earn any profit in the first year of its working, though the fish production was the highest in that year. In the next six years of its operation, it earned profits equal to 36 per cent of the sales proceeds, but during the next six years, the profit decreased to 29.2 per cent. Thus, in future, if this trend continues, there is hardly any guarantee of earning huge profits from sales of fish caught from Gandhi Sagar reservoir.

The main factor behind both low level of wages of the fisherfolk and decreasing percentage of profit is the very high wage bill of increasing number of employees. During the period of the Machhua Sahakari Sangh, the total number of employees was 19 including two officers of gazetted rank. Even out of these, three employees were posted at Ujjain and Indore since the area of operation included these districts also. Now, MPFDC has 91 employees including 11 gazetted officers, though its area of operation is restricted to Mandsaur district only. A large chunk of sales income is being used for the payment of salaries, allowances, vehicles, etc. The income of fisherfolk operating in the reservoir has been squeezed between decreasing production and increasing bureaucratic expenditure. The vast army of employees has failed even to maintain the level of fish production in the reservoir. Not only this, the MPFDC authorities are making false and baseless claims about steps taken for the welfare of fisherfolk; probably to hide their inefficiency and corruption. Its report of 1992-93, states that houses are being constructed in the proposed colony for fisherfolk at Rampura, but in reality the work is yet to start.

An Experiment in Food Security

I Y R Krishna Rao

With the dawn of the era of 'adversarial politics' when the Telugu Desam Party came to power in Andhra Pradesh in 1983, it became imperative to address the welfare needs of the people. The subsidised rice scheme was one outcome. How successful has the scheme been in fulfilling the stated objectives?

THE rationale for providing wide-ranging social security measures including food subsidies in the modern day world by most of the countries is rooted in the desire of governments in power to seek legitimacy for their rule whether the system of government is democratic or dictatorial. In democracies, there is an added pressure for pursuing such policies of social security measures in terms of existence of 'adversarial politics' [Dreze and Sen 1989] and in the communist countries, ideological commitment may provide the necessary additional justification to pursue such policies. In dictatorships, the additional impetus may come from a desire to take care of the needs of certain sections of population from whom threat to the existing power structure is perceived. This in short explains the existence of food subsidy schemes all over the world in as diverse political structures as the Latin American dictatorships and socialist China. The rice subsidy scheme in Andhra Pradesh covering a population of 60 million is comparable in its scope and impact, to other schemes having a nation-wide coverage in other countries.

Food subsidies which aim at providing food security can be part of much wider policy package of social security aimed at improving the quality of life of the people or they can be implemented without being part of a wider package. In this connection, Sen and Dreze [Dreze and Sen 1989] mention the two alternative strategies of 'growth-led strategy' and 'support-led strategy'. They commend the 'support-led strategy' as the one where nations do not wait for growth to take place to tackle the problems of hunger and poverty. Even in the countries which followed the 'growth-led strategy', conscious efforts were made by governments concerned to provide social security measures by trying to maintain full employment levels (as in South Korea) or provision of number of social security measures (as in Britain) and food stamps programme in the US.

Food security as defined by the World Bank in their study on poverty and hunger is "access by all people at all time to enough food for an active and healthy life. In essential elements, it is the availability of food and ability to acquire it" [World Bank 1986]. Food insecurity can be of two forms. Transitory insecurity resulting from decline in household access to enough food, the worst form of it being famine. Chronic food insecurity is another form resulting in continuously inadequate diet caused by inability to acquire food. Food subsidy schemes generally aim at the second form of food insecurity, though they can be used as part of relief programmes to tackle the famine conditions as well.

Sen's (1981) theory of entitlement suggests that the reason for such a situation may be the lack of purchasing power due to deterioration of entitlement rather than on the aggregate food supplies although they too have role in determining entitlement by affecting food prices. Sen and Dreze (1989) prefer a strategy of public works to enhance entitlement of the affected groups in the short run with governments playing a role in stabilising the food prices and food supplies more effectively by participating in public distribution system rather than clamping negative controls on trade. They also prefer payment for works in cash instead of food grains leaving the food supplies to be taken care of by private trade which produces the best results. Though their analysis is mainly with reference to tackling the drought conditions it is equally relevant for dealing with the problems of chronic hunger in the short run. Peter Timmer (1983) on the other hand recognises the fundamental dilemma every food policy analyst faces of having to reconcile the twin policy objectives of providing adequate consumption levels especially to the poor in the short run, while at the same time providing adequate incentives to the farmers in the form of high prices so that supplies of food are maintained adequately in the long run as well. He discusses differ-

ent methods of targeting food supplies and finally concludes that "in the long run continuation of cheap food policies are likely to have severely negative production effects".

The World Bank [World Bank: 1986] in its policy study on poverty and hunger, discussed the alternatives to dealing with the problem of hunger and the trade-off involved with each of the alternatives. A reduction in food prices will have a favourable impact on the entitlement of the occupational groups affected depending on whether they are net buyers or sellers of foodgrains. World Bank analysis has shown that food security measured by the energy content in national diet increases as prices of food decrease holding income constant. Binswagar and Quizon also came to a similar conclusion in their study of India [Binswagar and Quizon: 1988]. But while trying to reduce food prices, one has to keep in mind the trade-off involved between efficiency, delivery and budget costs. If food prices are kept low, this can lead to reduced production and it is difficult to quantify such efficiency costs. If producers are paid remunerative prices, but consumer prices are subsidised, this leads to high budgetary costs. If subsidised prices are targeted to particular groups delivery costs can be very high in terms of identifying the groups and delivering the commodities. Thus for any country, the appropriate policy package depends on the composition of the people who suffer from chronic hunger and the relative costs involved in a market-wide intervention or a target group intervention. On the demand side, chronic food insecurity can be tackled in terms of augmenting consumer income. This can be done by public employment, cash or income transfers to the target groups. Though subsidised employment is a preferred choice, it can result in decreased supply of labour for agriculture and creation of non-durable assets [World Bank 1986].

The final effect of food subsidies depends not only on the level of subsidies but also on how they are financed. If the financing is done through progressive direct taxation, then the welfare effects of such a subsidy scheme are going to be far greater than if the same is financed by deficit financing leading to an inflationary effect on the economy. If the same is financed by commodity taxation the effect depends on the bundle of commodities taxed. Similarly, the effect of food subsidies depends on the mobilisation of quantities needed for feeding the public distribution system. If the same is supplemented by imports, then the poor may benefit more in the short run though the long-run effects of the same depend on the economic costs in terms of the disincentives to producers through depressed prices. If the same is mobilised through procurement then

the net effect depends on how far open market prices rise as a consequence of such procurement. Further the effects of such a procurement are going to be different depending on from whom the procurement is made (from only rich farmers or from all farmers) and who constitute the poor in that country [Binswagar and Quizon: 1988]. In short, there is no evidence to suggest that food subsidies impede or foster growth. The answer to this depends on the other policy distortions leading from it and other accompanying policies [Scobie 1988].

Food subsidy schemes differ widely depending on their objectives. They can be untargeted covering the total population and ensuring fixed quantities to all consumers at a fixed price. They can be targeted covering certain percentage of the population as per a set criteria. Targeting can be done geographically by limiting the distribution of the subsidised commodity to certain geographical areas that are predominantly inhabited by the poor. Targeting can also be done by subsidising the particular commodity which the poor only consume or predominantly consume. Targeting can also be achieved by aiming at particular age groups like children or the old and infirm. Lastly, there can be targeting by evening out the seasonal variation in prices by government market participation [Peter Timmer 1983].

BACKGROUND TO SCHEME

By early 70s, the area under rice production increased in Andhra Pradesh with the completion of major irrigation projects like Nagarjuna Sagar and Pochanipad. But this did not result in a perceptible decline in rice prices. In the year 1982, with the formation of N T Rama Rao Telugu Desam party, the supply of rice at Rs 2 per kg was made the party's main electoral promise. In the elections held in January 1983 the party came to power with a massive mandate and was politically committed to implementing the scheme. "Explicit subsidies often accompanied major historical changes" [R F Hopkins 1988]. One such major historical change occurred in Andhra Pradesh in 1982.

Procurement of rice required for running the scheme was made as follows: All the rice traders were required to deliver one unit of rice to Food Corporation of India (FCI) as levy at FCI prices and half a unit of rice to Civil Supplies Corporation (CSC) at negotiated prices. The FCI was a central government agency whereas the CSC was a state government procuring agency. The negotiated price at which rice was to be delivered to the CSC was determined by a cabinet sub-committee which after negotiations with the millers arrived at an agreed price for each crop season. This price was more than the FCI procurement price but lower than the

open market price. After delivering these quantities, the traders were permitted to sell anywhere in India one unit of rice against one unit of rice delivered to the FCI at open market price and half a unit of rice anywhere in the state at open market price against the delivery made to the CSC. In short, the procurement policy was known as 1½:½:1 [Radhakrishna and Indrakanth 1987]. However, this did not apply to non-trading millers who do custom milling to the farmers. This strategy led to substantial increase in procurement as shown in Table 1.

A massive enumeration programme was undertaken to cover the total population with ration cards. A means test was adopted to decide eligibility of people for Rs 2 a kg of rice. All those with an income of less than Rs 6,000 per annum were eligible for rice under this programme. In urban areas, income was assessed by occupation. In rural areas all those with landholdings of less than 1½ acres under sources like tanks and wells, three acres under commercial crop and five acres under dry crops were eligible for subsidised rice. All those eligible for subsidised rice were issued green ration cards and others who were not eligible for subsidised rice but were eligible to draw other commodities like sugar and palm oil were issued yellow cards. By 1991 in a population of 66 million there were 10,645,884 green cards. This meant 79 per cent of the households were covered under the subsidised rice scheme. They were catered by a network of 37,077 fair price shops covering urban and rural area. The colour of the cards distributed is changed from green to white and yellow to pink as part of re-enumeration in the year 1992.

The scheme underwent some major changes from time to time. When the scheme was introduced 25 kg of rice was issued to all the card holders. Subsequently, 5 kg per head limited to a maximum of 25 kg for family was allotted. From November 1, 1990 rice was supplied at Rs 1.90 per kg and from January 27, 1992 a maximum of 16 kg for family was being supplied at a rate of 4 kg per head per month at a cost of Rs 3.50 per kg. The changes introduced in the scheme from time to time, reflected the desire of the government to limit the subsidy expenditure on the scheme.

The scheme was run with least political interference, as it was a major scheme on which the future of the party in power depended. Care was taken to design it properly and implement it efficiently. Though on the organisation and implementation side, the scheme was managed efficiently, the real problem came on the targeting side. The scheme was badly targeted covering 79 per cent of the households. All efforts to target it more rigorously like cancelling ineligible

and bogus cards ended in failure.

The operation of the scheme involved a huge subsidy commitment on behalf of the government. These details with quantities of rice distributed under the scheme are given in Table 2.

CONSUMER WELFARE AND RICE SCHEME

Due to the massive procurement operation taken up for feeding the public distribution system (PDS) consequent on introduction of the Rs 2 kg rice scheme, the open market price of rice has gone up substan-

TABLE 1: PROCUREMENT OF RICE
(In million tonnes)

1976-77		0.481
1977-78		0.449
1978-79		0.516
1979-80		0.455
1980-81		0.605
1981-82		1.078
1982-83		2.004
FCI	1.626	
CSC	0.378	
1983-84		2.471
FCI	1.484	
CSC	0.965	
1984-85		2.673
FCI	1.708	
CSC	0.965	
1985-86		2.470
FCI	1.572	
CSC	0.897	
1986-87		2.303
FCI	1.468	
CSC	0.835	
1987-88		2.414
FCI	1.520	
CSC	0.893	
1988-89		2.784
FCI	1.482	
CSC	1.301	
1989-90		3.594
FCI	2.386	
CSC	1.207	

Source: Civil Supplies Corporation.

TABLE 2: SUBSIDY EXPENDITURE

Year	Quantity of Rice Distributed (in MTs)	Subsidy Expenditure (in million rupees)
1983-84	1.814	780
1984-85	1.776	1160
1985-86	2.034	1410
1986-87	2.236	1760
1987-88	2.198	1770
1988-89	1.786	1910
1989-90	2.140	3170
1990-91	2.117	3680
1991-92	2.640	5230

(1991-92 figures are anticipated figures).

Source: Civil Supplies Corporation.

tially. Since the quantity supplied by the public distribution system was not sufficient for catering to the total requirement of the family—the target group was also purchasing part of its requirement from the open market. The total consumer welfare of the target group depends on the difference between the combined effect of the amount spent on the ration shop purchased and open market purchases and the amount they would have spent on purchase of rice in the absence of the above scheme. To test the above, a null hypothesis is formulated that the consumer is worse off as the rise in the open market prices have more than offset the gains arising out of the supplies through the ration shop. The same is put to test as follows:

Before testing the null hypothesis, certain assumptions are made. Under the scheme, the government supplies fine quality rice which is known as Sort-I rice but the target group in the absence of the scheme would consume common variety of rice known as the Sort-II rice. Hence, it is assumed that in the absence of this scheme and also to supplement the ration quantities target group would buy common variety rice. As per the study conducted by National Nutrition Monitoring Bureau of India, in rural and urban areas, the following quantities are being consumed in India: in rural areas 446 gm per adult per day and the urban slum areas, 416 gm per adult per day [Gopalan et al 1991]. The analysis of consumer welfare here is made based on these quantities.

The retail prices of the Sort-I and Sort-II variety of rice in open market are converted into a price-index with 1976 as the base year and then deflated by the consumer price index to arrive at the deflated price index. Similarly, with 1983 as the base year, the price of rice under the scheme is also deflated by the CPI (Table 3). Under the scheme a family of five or more will get a maximum quantity of 25 kg of rice per month. This works out to 167 gm per day per adult. As per the NNI report [Gopalan 1991] in rural areas 446 gm per person and in urban slum areas 416 gm per person are consumed. Hence, in rural areas, consumers have to buy in the open market 279 gm each and in urban areas 249 gm each in the open market of the Sort-II variety of rice, to supplement their rations. Before the introduction of the scheme in 1982, the consumer bought the total quantity of Sort-II variety rice in the open market. The value of the same in 1982 as per the deflated price index would be 44.67 for the rural consumer and 41.66 for the urban consumer. In 1991 with 167 gm coming from the PDS and the remaining coming from the open market, the combined value of the same is 32.17 for the rural consumer and 29.64 for the urban

consumer. Since the total expenditure of the consumer is less as a consequence of the introduction of the scheme to maintain the same level of consumption, the null hypothesis is rejected and the alternative hypothesis is accepted that consumer welfare has increased as a consequence of the introduction of the scheme.

Pasquale L Scandizzo and Gurushri Swamy in a study of the Indian public distribution system came to the conclusion that the food distribution system in India had resulted in positive net benefits and it was not desirable to dismantle the same. They were looking at the food distribution system mainly designed to feed the urban demand. They were not in favour of an expansion of the system unless the eligibility requirements were made more effective and indirect targeting was improved. They felt that expansion of the system into the rural area would increase operational costs [Pasquale L Scandizzo and Gurushri Swamy 1982]. Unlike the system studied by them, the rice scheme in Andhra Pradesh covers the rural areas as well and to that extent differs from the PDS system in the rest of the country other than the one prevailing in Kerala state. In Andhra Pradesh the scheme was extended to the rural areas without making the eligibility requirements more rigorous and also without introducing any extra measures to improve the indirect targeting. This resulted in substantial budget commitments on behalf of the government in implementing the scheme.

De Janvy and Subba Rao on the other hand using the general equilibrium model came to the conclusion that even if food subsidies were doubled with fixed output and flexible prices the urban poor suffer a loss in real incomes due to the rise in the consumer price index. They thus concluded that food subsidies were regressive in nature unless accompanied by price control or output increase. However, their analysis was in the context of most of the countries going in for stabilisation policies due to growing difficulties of foreign debt. They analysed the results of investing in irrigation by removing food subsidies and came to the conclusion that investing in irrigation by stimulating agricultural growth would have a positive effect on the industrial growth as well. For such a strategy to have beneficial effects they felt that mechanisation in agriculture should be postponed so that the employment effects are realised in full and also felt part of the investment should be targeted to the small farmers. Fulfilment of such conditions may not be realistic. With the increased prosperity and consequent economic and political power that goes with it farmers may go in for mechanisation sooner than later. De Janvy and Subba Rao recognised the need for targeted food subsidies to the urban marginals as a necessary supplementary programme to such a growth-oriented strategy [De Janvy and Subba Rao 1986]. Thus even here it is not food subsidies versus irrigation invest-

TABLE 3: RETAIL RICE PRICE INDEX DEFLATED BY CONSUMER PRICE INDEX

Year	Rice Retail Price Sort I (Rs)	RRPI Base= 1985 Sort I	CPI Base= 1985	RRPI Deflated by CPI Sort I	Rice Retail Price Sort II (Rs)	RRPI Base= 1985 Sort II	RRPI Deflated by CPI Sort II	Subsidy Rice Price Index 1985	Subsidy Rice Price Index 1985	Sort I Deflated by CPI 1976	Sort II Deflated by CPI 1976	Subsidy Rice Price Deflated by CPI Base= 1983
1976	1.89	54.31	48.8	111.29	1.57	54.89	112.49			100	100	
1977	2.08	59.77	52.8	113.20	1.62	56.64	107.27			101.71	95.36	
1978	1.9	54.59	54.1	100.92	1.71	59.79	110.51			90.68	98.24	
1979	2.02	58.04	57.5	100.94	1.68	58.74	102.15			90.70	90.81	
1980	2.31	66.37	64.1	103.55	1.92	67.13	104.73			93.04	93.10	
1981	2.69	77.29	72.5	106.61	2.15	75.17	103.68			95.80	92.17	
1982	2.87	82.47	78.2	105.46	2.52	88.11	112.67			94.76	100.16	
1983	3.2	91.95	87.5	105.09	2.73	95.45	109.09	2	1.14	94.42	96.97	100
1984	3.52	101.14	94.7	106.81	2.79	97.55	103.01	2	1.05	95.97	91.57	92.39
1985	3.48	100	100	100	2.86	100	100	2	1	89.85	88.89	87.5
1986	3.94	113.21	108.7	104.15	3.13	109.44	100.68	2	0.91	93.58	89.50	80.49
1987	4.18	120.11	118.3	101.53	3.32	116.08	98.12	2	0.84	91.23	87.23	73.96
1988	4.87	139.94	129.4	108.14	3.45	120.62	93.22	2	0.77	97.17	82.87	67.61
1989	5.21	149.71	137.6	108.80	3.59	125.52	91.22	2	0.72	97.76	81.09	63.59
1990	4.97	142.81	149.68	95.41	3.54	123.77	82.69	2	0.66	85.73	73.51	58.45
1991	6.05	173.85	170.48	101.97	4.64	162.23	95.16	2	0.58	91.63	84.59	51.32

Sources: (1) Retail Rice Price (Directorate of Bureau of Economic and Statistics)

(2) Consumer Price Index, *International Financial Statistics* (year and monthly books), IMF.

ment but how best to reconcile long-run growth with the short-run need to alleviate the sufferings of the poor.

There are two striking features of the rice scheme as implemented in Andhra Pradesh. The scheme though targeted covers 79 per cent of the population. The rice supplied is of fine quality. In a way both these are interrelated. Since the quality of rice supplied under public distribution scheme is good, there is a strong tendency for members of the non-target group also to get themselves included as beneficiaries in the scheme. Kakwani and Subba Rao (1990) based on head-count ratio estimated the percentage of population below the poverty line in Andhra Pradesh to be 56.04 in 1973 and 30.2 in 1983. In the face of this, the scheme is badly targeted as 79 per cent of the household were covered by the scheme as late as 1991. This indicates that large number of households above the poverty line are enjoying the benefits under the scheme. Conceptually, the scheme envisages improvement in the consumption standards of the poor, reduction in the incidence of poverty and reduction in inequalities especially in cereal consumption by real income transfers [Sastry and Rao 1990]. Due to improper targeting of the scheme substantial portion of the benefits are accruing to the non-target group increasing the financial burden on the government. One way out could be to supply inferior quality rice through the public distribution system. Since the quality of this variety is not preferred by the better-off consumers that would result in automatic targeting as it happened in the rationing of inferior variety of wheat flour in Pakistan [Harold Alderman 1988].

But as the government is involved in the scheme it may not want to give the impression that it is supplying inferior variety commodity. As the success of scheme in reaching its objectives will be substantially enhanced by opting for supply of inferior quality rice and as the self-targeting nature of the commodity reduces the incentive for the non-target group to avail themselves of the benefits under the scheme it would be a worthwhile preposition for the government provided inferior quality rice is available in sufficient quantities. This would also result in substantial saving in the subsidy commitment on the part of government. Supply of lower quality of rice through public distribution system can result in a greater opportunity for the officials and dealers involved in the scheme to misappropriate the quantities. When the quality of rice supplied is good and there is a regular off take at the retail point, the opportunities for such misappropriation are less. But when the quality is poor and substantial number of card

holders do not turn up to take delivery of the commodities then the retailers will have added opportunity to divert the commodities to the open market with the connivance of the officials. Thus strict monitoring of the programme will be required if the costs of the subsidy are to come down when inferior quality of rice is supplied.

Another alternative programme to achieve the objectives as set out in the preceding paragraph is to go in for a massive public works programme. The expenditure on the rice scheme in 1990-91 is Rs 3,680 million. As per the gazette notification of the Andhra Pradesh government of April 8, 1991 the minimum wage for employment in agriculture for doing unskilled work is Rs 15 in Zone No III (A P Gazette 1991 April, 8, No 888). This happens to be the lowest minimum wage in the agriculture sector. The mandays that can be created by the amount of money spent on the subsidy scheme in 1991 with 40:60 ratio for material and labour are 147.02 millions with Rs 15 as daily wage. There are a total of 10.64 million card holders eligible for drawing rice under the subsidy scheme in the state. Even if half of them are going to be provided with work under the scheme at the above wage rate the mandays per person per year would be 27.65 days. This clearly points out the limitation of public works programme as an alternative to the scheme. Though the public works programme is better suited to achieve the objectives of the reduction in the incidence of poverty and leads to real income transfer as it has the built-in advantage of self-targeting huge investments are needed to make its impact felt. In this context the analysis of the food for work programme in Maharashtra by Nurul Islam is relevant. The bulk of the revenue for the programme is raised from the prosperous urban sector of Bombay in Maharashtra. Thus while the financial burden was borne by the urban sector, the benefits favoured disproportionately the rural rich class who "extracted surplus from the urban sector, combined with unemployed rural labour for creation of productive assets" [Nurul Islam 1992]. Though the assets so created were public the rural rich might have been in a better position to utilise them depending on the nature of the assets created. For example if irrigation projects were taken up under the programme one needed to possess land to benefit out of it. In the absence of such a vibrant urban sector, the possibility for financing implementation of such a massive public works programme in the state of Andhra Pradesh is limited. Thus food for work programme may not be an alternative to the rice subsidy scheme due to

the huge investment needed to implement it.

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Themes in Nepali Politics

Anirudha Gupta

The king and the Nepali Congress constitute two extreme poles of Nepal's political tradition: the first of Nepali nationalism, the second of multiparty democracy. The communists constantly manoeuvre between these two—to exploit the situation and earn the distinction of being both nationalist and democrat.

Kathmandu, August 17. The ruling Nepali Congress Party and the main opposition party, the United Marxist-Leninist party, today signed what was described as a 'historic' agreement to end the two-month-old Left agitation to force the prime minister Girija Prasad Koirala, to resign. The main demand of the seven Left parties' combined front, that of the prime minister's resignation, has been put in cold storage with the Leftists claiming that the Nepali Congress has given them a verbal undertaking that it would meet this demand in the "near future" ... *The Statesman*, August 18, 1993.

POLITICS in Nepal emulates the Sisyphian syndrome. It rolls inches forward only to fall yards backwards. Hence, it is not surprising that, after having won their political freedom to run multiparty democracy, Nepali politicians should get busy in dismantling it and return to status *quo ante*.

Or, almost. For, the kingdom's fundamental laws have changed. Under the new constitution (1991), political sovereignty has been transferred from the Crown to the Nepalese people "and shall be exercised in accordance with the provisions of this constitution" (Preliminary 3/4). Further, the king cannot suspend or abrogate "any part or whole of the constitution", as he obviously could under all previous constitutions.¹

Under Article 53.3, however, the king can dissolve the Pratinidhi Sabha (Lower House) on the recommendation of the prime minister and designate to hold another election within six months. This is an essential prerogative of the leader of the house—and he continues to enjoy it so long he has majority support. In the Pratinidhi Sabha, Girija Prasad Koirala's Nepali Congress has 110 of the 205 MPs, which means that at no point during the tenure of this parliament can his government be defeated by the opposition.² The Communist Party of Nepal (United Marxist-Leninist) (UML) is well aware of the fact, but does this also explain why it has resorted to strikes, street rallies and dem-

onstrations to achieve its political end by other means?

Only partly, perhaps. The UML's current objective is strictly limited. It wants only the ouster of Koirala and not the fall of the Congress government. Its chairman, Manmohan Adhikary, carefully spelt out the party strategy: "At the moment we are not in favour of a snap poll. My personal opinion is that in the present situation the communists will not get a majority in parliament. The Nepali Congress will not also be able to retain its present position... The benefits of the snap poll will be enjoyed by the royalist Rashtriya Prajatantra Party (RPP) and the regional Nepal Sadbhavna Party (NSP). A situation may come about when the Nepali Congress might have to form a coalition with the RPP or the NSP. It would be the worst possible political combination for the people of Nepal".³

Yet, it is difficult to see how a situation such as the above can be avoided if, under communist pressure, Koirala seeks the dissolution of the House and fresh elections. The UML and other allied parties, which launched the two-month-old agitation, claim that Koirala would be out of office in about two months' time "at the most".⁴ Presumably, they build their hopes on the ground that Girija Prasad's position within his own party has become increasingly shaky.

To some extent, this is true. Unlike his elder brother, Bisheshwar Prasad Koirala (popularly known as BP), who headed Nepal's first parliamentary government during 1959-60, G P Koirala has no charismatic hold on Congress-men. Besides, BP held the dual posts of prime minister and party president, which gave him full control over both ministerial and organisational wings. But G P Koirala has little say on party matters; his attempts to have some of his own people inducted into the Congress Working Committee were frustrated by the party 'supremo', Ganeshman Singh, and president, K P Bhattarai. Also, Singh has grown extremely critical of Koirala's leadership. In

a sharp attack, a year after India and Nepal signed the Tanakpur barrage accord, Singh demanded the prime minister's removal on the ground that it was improper for anyone "in a democratic set-up to hang on to the chair by misleading parliament even after having faced allegations of anti-national work".⁵

In some ways, the situation is akin to the crisis in the Nepali Congress, in 1952-53, when Matrika Prasad Koirala headed a ministry and his brother, BP, conducted party affairs. On the latter's insistence, the Congress WC asked Matrika Prasad to reconstitute his cabinet on the basis of a panel of names it supplied to him. Matrika Prasad characterised the demand as "unwarranted and unconstitutional".⁶ Matters came to a head when the WC called on him to resign along with his colleagues. Three ministers resigned; but Matrika Prasad demanded, instead, a special meeting of the All-Nepal Congress Committee. The WC responded by expelling him from the party!

Will the Nepali Congress—if not history—re-enact the past? Kathmandu wholly subsists on such rumours, and the communists are trying to precipitate such a crisis in the ruling party. They have not succeeded, not as yet; but they have certainly rendered Koirala's position extremely vulnerable.

But vulnerability is not the same as being vanquished. G P Koirala realises that his rigid stand on the Tanakpur accord has greatly embarrassed his supporters in the party. Yet, inside parliament, he commands majority support of the Congress MPs. Besides, there is an unwritten code by which the three strongmen (or what is known as the 'troika' of Ganeshman Singh, Bhattarai and Koirala) conduct their interpersonal relations. However bitter these relations might be, they have not been able to break the 'troika'. Perhaps, it might as well be that members of the 'troika' air their differences in public in order to sort them out in camera. A quaint practice may be—but it has so far, worked!

In private, Koirala favours the formation of a third party, preferably right of the centre with the communists providing a counter-balance from the left. "As it is", he confided in an interview, "the Nepali Congress has an overwhelming majority in parliament. This attracts all and sundry to join it and gain favours and rewards. The communists do not inspire faith in parliamentary democracy. They would much rather prefer to stay in opposition for ever. A third party is therefore essential, but it can only come about if there is

a split in the Congress party".⁷

What he was trying to impress, perhaps, was that he could carry away a large number of Congress MPs, in case the 'troika' forced his hand. The threat is potent enough for Ganeshman Singh to desist from pressing for Koirala's resignation. In any case, in case of a split, Koirala may try to float another party either alone or in association with the smaller parties and stake his claim to form an alternative government. If he is debarred from doing so under Article 49.1(f), he could still advise the king to dissolve the House.⁸

Thus, another round of Congress-communist confrontation can bring about exactly the situation which the UML chairman wants to avoid. On the other hand, along with Adhikary, most other leaders of UML—including its late secretary-general, Madan Bhandari, have made known their commitment to support parliamentary democracy under a constitutional monarchy. Why are they anxious then to pull it down so soon? Two immediate explanations come to mind:

First, being the keepers of the left movement in Nepal, the UML knows that the real challenge to its leadership comes from extreme radical groups. Some of its own factions still press for the physical liquidation of local landlords as 'class enemies'.⁹ Outside, the United Peoples' Front (UPF), with 10 MPs, describes multiparty democracy as purely bourgeois and calls for its replacement by 'peoples' democracy'.¹⁰ These extreme groups criticise UML for its decision to form the interim government in partnership with the Nepali Congress (1990-91), and now for suspending the two-month-old agitation as a 'betrayal'.¹¹ Thus, it is as much to appease the ultra-left as also to vent their disgust with the Koirala government that the UML leaders strike an adventurist course from time to time.

The second explanation focuses on G P Koirala's mishandling of the Tanakpur dispute. Most Nepalese believe that the construction of Tanakpur barrage on river Mahakali would adversely affect their country. This belief—or fear—hinges on (a) the fact that India has gone ahead with construction work and sought Nepal's agreement only as an afterthought; (b) the barrage takes away some acres of Nepali territory; (c) India has not considered Nepal's request for equal sharing of water resources; and (d) the accord, signed by Koirala in December 1991, falls into the category of a treaty under Article 126.2, and therefore needs to be ratified "by a two-thirds majority of the members present

in the joint session of the parliament".¹²

It is on this last point that the communists have built up an impressive case. They have rejected Koirala's various offers to ratify the accord by consultation or simple majority in parliament; and it is difficult to see how a repeat confrontation can be avoided if the government refuses to place the accord for ratification by two-thirds majority. Thus, as in the past, Indo-Nepal relations have turned out to be the central issue in Nepali politics. In 1960, B P Koirala's government became 'anti-national' because of its failure to settle the Gandaki river boundary dispute.¹³ In any case, when BP showed some independence in international affairs, especially on demarcation of Sino-Nepali border, king Mahendra dismissed his government for "imperilling national interest".¹⁴ Interestingly, the communists at this point of time extended 'loyal support' to the king in his task of "safeguarding national sovereignty".¹⁵

INDIA IN NEPALI POLITICS

Certain themes recur—time and again—in Nepali politics. First is that whenever a party constitutes government, it immediately gains the sobriquet of being 'pro-India' and, therefore, 'anti-national'. In the early 1950s, when Matrika Prasad headed the first Congress ministry, his own partymen accused him of following anti-Nepal policies. Prasad explained this phenomenon as nothing extraordinary: "When Nepali politicians get into power, they follow pro-India policies. When they are out of it, they become anti-India!"¹⁶

In this business of India-baiting, the Nepali communists have been most successful primarily because (a) excepting a brief stint in the interim government, they have never been in power, and (b) they have made defence of Nepal's independence and territorial integrity the chief plank of their political ideology.

Second, the theme of Congress-communist rivalry. As a larger political formation, the Nepali Congress has never given credence to the communist profession in democracy. The latter, in turn, have projected the Congress as "unashamedly pro-Indian", and have thereby tended to rally the support of non-Congress parties, including the royalist, conservative and opportunist. This has pinned the badge of patriotism on Nepal Communist Party—a rare distinction none of its counterparts in south Asia could achieve. Right from its inception (September 1949), the NCP pursued a stridently anti-India line. When the Rana regime fell

as a result of the Delhi Agreement (January 1951), it condemned the compromise as a "sell-out to the Nehru government".¹⁷ Ever since, "to be nationalist is to be independent of India" became an article of faith with various factions in Nepali communist movement.

The third theme relates to the rather amorphous character of the Nepali Congress. It has never been a party in the modern sense. It originated from a popularly based but rather disorganised armed struggle against the Ranas. The different groups which joined this struggle had their own programmes and leaders. The Nepali Congress never got a chance of moulding these groups into a coherent political organisation, primarily because (a) its own role in the anti-Rana movement was overshadowed by king Tribhuvan's dramatic flight to India; (b) India's mediation between the king and the Ranas; (c) Nehru's anxiety to prevent a total collapse of the Rana political structure and his not-too-friendly attitude towards the Nepali Congress.¹⁸

The Delhi compromise dismayed a large section of NC ranks. K I Singh, who was clearly dissatisfied with the leadership, revolted in western Nepal. A group of 'C' class Ranas, who had lavishly funded the Congress movement, also repudiated the agreement. But far more important than all this was that the agreement nowhere mentioned the Nepali Congress by name. Even the memorandum, which the government of India presented to the Rana prime minister for a settlement, only suggested the formation of an interim government (pending election to a constituent assembly) of 14 ministers "of which seven will be representatives of popular opinion". More specifically, Nehru stated in parliament, "Apart from an adequate number of popular representatives, this interim government should include Rana families, one of whom should be prime minister".¹⁹

Pending such election, who was to decide the so-called "representatives of popular opinion"? Not the people of Nepal, decidedly. The choice was therefore entirely left to the king or his advisor, the Indian ambassador. This encouraged every aspiring politician to stake claim for a ministerial post. The Nepali Congress, which was still in the throes of formation, fell into disarray. Internecine quarrels broke out; splinter parties sprouted like mushrooms and every one with a party flag and an office rushed to the palace—with 'documents'—to prove how representative he was of popular opinion. In

retrospect, it does appear that, under the Delhi Agreement, the Ranas did not lose half as much as did the Nepali Congress.

Yet the paradox was that the Congress survived. Not perhaps as a party; but as a movement. From time to time, between 1952-58, it launched political campaigns to press for holding election to a constituent assembly. Finally, the United Front it forged with three other parties in 1957 forced king Mahendra to announce a firm date for elections. That, among the hundred-odd parties, the Congress alone had a nationwide base was proved in the results of the 1959 election. It won 74 of 109 seats in the Pratinidhi Sabha.²⁰ Some top leaders of other parties, considered 'popular' enough to head previous ministries (for example, Tanka Prasad Acharya and K I Singh) lost the elections.

Yet, as a ruling party, the Nepali Congress found itself incapable of running a parliamentary party. Group rivalries and disputes hampered decision-making at every stage; and B P Koirala complained at the 7th National Conference of the party (May, 1960) that "narrowness of mind and parochialism were growing among Congress workers".²¹ No wonder others waited in the wings to see the government fall. And, when indeed it was dismissed by king Mahendra, no less than a quarter of the Congressmen, some very close to BP, switched over to the royalist camp!

The basic character of NC has not changed in spite of its years of struggle against the partyless panchayat system. A wide range of diverse and mutually exclusive groups have joined the party. As a result, the NC represents more or less a limless juggernaut: there are old time workers close to the 'troika; middle-level leaders with pockets of influence in the districts; a cadre of highly educated and politically articulate younger generation who chafe at the medieval functioning of their leaders, and of course a large following among peasants, small tradesmen and intelligentsia.

Organisationally, the Nepali Congress continues to remain an undefined conglomerate of these elements. Hence, once more as in 1959-60, factional rivalries obstruct parliamentary system and a swelling number of dissatisfied ranks wait to see the government fall.

It is understandable, therefore, why the Communist Party (UML) whipped up anti-Congress agitation precisely to revive old themes: only this time Gandak has been replaced by Tanakpur barrage and BP by his younger brother, G P Koirala, as prime minister.

This brings us to the last theme, viz, role of the crown in politics. As a result of the 1990 movement for the Restoration of Multiparty Democracy (RMD), the king has accepted strict limits to his powers as a constitutional monarch, though he can still on his own declare a state of emergency throughout the kingdom subject to approval by Pratinidhi Sabha within three months (Article 115). More importantly, as head of state and with powers "to enact and promulgate this constitution" (preamble), the crown continues to stay at the centre of Nepali politics and administration. The Royal Nepal Army, the state bureaucracy and influential families pledge absolute loyalty only to the king. Also, the peasant tradition of revering the monarch as a divine being has not substantially changed. On the contrary, king Birendra's voluntary surrender of his traditional prerogatives to the elected representatives of the people has earned him abundant goodwill, which at one point during the panchayat system he seemed to have nearly forfeited. Further, in view of the Nepali perception of 'immanent threat' from outside to their territorial integrity, the crown has become a symbol of national unity and independence—a symbol neither the Congress nor the communists would like to repudiate.

In times of uncertainty, Nepalese look to the king as the one who can deliver them from trouble and turmoil. When the king does act to 'deliver', his rule becomes increasingly oppressive. It is then that the people turn to the Congress to restore democratic rights. Thus, the king and the Nepali Congress constitute two extreme poles of Nepal's political tradition: the first, of Nepali nationalism, the second, of multiparty democracy. The communists constantly manoeuvre between these two poles—to exploit the situation and earn the distinction of being both nationalist and democrat. Unfortunately, they must keep on manoeuvring to convince their permanently divided and impatient ranks. *Plus a change...*

Notes

1 See my *Politics in Nepal*, New Delhi, 1993 new edition.

2 The total strength of the opposition is as follows:

Nepal Communist Party (UML) ... 69
United Peoples' Front ... 9
Nepal Sadbhavna Party ... 6
Rashtriya Prajatantra Party (Chand) ... 3
Nepal Workers and Peasants Party ... 2
Communist Party of Nepal (democratic) ... 2

Rashtriya Prajatantra Party (Thapa) ... 1
Independents ... 3

Total 95

3 *Frontline*, Madras, August 13, 1993, p 45.

4 *Statesman*, Calcutta, August 18, 1993.

5 *Frontline*, op cit.

6 See *Politics in Nepal*, op cit, pp 71-72.

7 Author's interview with G P Koirala, July 13, 1992.

8 Article 49. 1(f) states: 'If the party, as whose candidate he was elected to be member, notifies, in the manner laid down by law, that he has ceased to be a member of that party', the said member shall vacate his seat in parliament.

9 On this the late Madan Bhandari told the author, September 9, 1993, 'By 1990 several social groups had joined the Marxist-Leninist Party (MALE). We had many differences: some wanted to establish a republic, others were pro-China, pro-Soviet, pro-Palace and so on. All were accusing each other as 'dalal' of one quarter or another'.

10 See my article, 'Change of Guard in Kathmandu', *Economic and Political Weekly*, May 26, 1990, pp 1129-30.

11 *Statesman*, August 20, 1993.

12 Further, Clause 4 of this Article says 'Notwithstanding anything mentioned in Clause (1) or (2), no treaty or agreement shall be made which compromises the territorial integrity of Nepal'. It is this aspect the UML is highlighting most.

13 The Gandak has been shifting from east to west and each time it cuts a new channel, it leaves more of the Nepalese forest on the Indian side. The disagreement over boundary demarcation hinges on Nepal's insistence upon the boundary as delimited in the 1817 treaty between Nepal and British India, and India's proposal that 'the principle under which the boundary follows the river course should be applied in this and similar cases', see Leo E Rose, *Nepal: Strategy for Survival*, Berkeley, 1971, p 257.

14 *Politics in Nepal*, op cit, p 160.

15 Lok Raj Baral, *Oppositional Politics in Nepal*, New Delhi, 1977, p 88.

16 My interviews and documents on Nepal's first parliamentary experiment (forthcoming) deals at length on this subject.

17 See *Politics in Nepal*, op cit, pp 201-2.

18 See note 16.

19 Nehru's Statement of December 21, 1950, *Parliamentary Debates*, Part II, Vol VII, No 8, pp 2137-42.

20 *Politics in Nepal*, op cit, pp 146-47.

21 *Ibid*.

22 The Article further states that if approved by a two-thirds majority in Pratinidhi Sabha, the emergency proclamation shall remain effective for six months from the date of its first announcement. If not approved, the proclamation shall be deemed to be ineffective *ipso facto*.

Innovation, TRIPS and Future Trend

S R Sen

GATT, which was set up to promote free trade and free competition in commodities, is now sought to be made the instrument for curbing competition and strengthening monopoly and oligopoly in the field of intellectual property rights. This new monopoly of knowledge for the haves against the have-nots raises several questions.

REFERRING to Herman Kahn's forecast that the world is now in transition from the industrial society to the super industrial society *en route* to a post-industrial society, the question was posed in an earlier article, 'Quest for Peace from Pre- to Post-Industrial Society' (EPW, August 1-8, 1992): how precisely will the transformation come about? Will it come automatically and relatively smoothly through the natural momentum of the ongoing process of technological and organisational innovation itself or will it require some guiding or promotional action by some authority, national or international, and if so, how and to what extent and what may be the likely snags are some of the moot points. Kahn is not quite explicit about it.

It is therefore important that the nature and trend of innovations, the possibilities and snags, are given some thought.

INNOVATION

Until recently it was assumed by the neo-classical economists that the sources of economic growth were growth of population and thrift and the growth of productivity of labour dependent on substitution of labour by capital through technological and organisational or managerial innovations. But studies by Abramovitz (1956), Solow (1957) and Kendrick (1975) have conclusively shown that the modern growth of the US economy was in proportionate terms at least *three-quarters* due to increased efficiency in the use of productive units and not to the growth in the quantity of resource inputs *per se*.

Acquisition and fruitful use of knowledge is, therefore, considered now to be the most important element of modern innovations unlike in the earlier era when, as mentioned above, capital accumulation and progressive substitution of land and labour by capital were supposed to comprise the core of innovation and development.

It may be perhaps useful if a few basic concepts are clarified here.

The first stage is invention, both technological and managerial, which may come about through accident, individual inspiration and trial and error or scientific research by an individual or an institution. The sec-

ond stage is innovation when an invention enters the economic field and the marketable stage through further research and development (R and D). The third stage is diffusion through either market forces as in, say, corn or computer or organisational effort as in, say, battle tanks or spacecraft.

Innovation essentially means putting together in a new combination different factors of production, material, energy and knowledge so as to make it more efficient, useful and marketable.

Innovations are said to acquire economic weight and become marketable when they are regarded as superior to existing processes or products by their producers or users or both. Innovations do not usually emerge in the economic field full-fledged but in a rather half-baked form and evolve thereafter in the light of environment, challenges and opportunities. The same innovation in different environments would evolve in different forms. Similarly the same innovation which is uneconomic and still-born in one environment may develop and become economically attractive in another environment.

While earlier innovations were land-intensive or labour-intensive or capital-intensive, latest innovations are often knowledge-intensive and in addition to substituting one factor of production by another they may actually economise the use of all, e.g., wireless communication.

Innovations are becoming increasingly based on scientific research and team-work and have been largely institutionalised. This has opened up new vistas. Discovery of new sources or substitutes of production material or sources of energy, development of more efficient and economic use of resources and progressive 'miniaturisation' of equipment are noteworthy features of the latest trends in innovation. This indeed is the basis for the forecasts of Kahn.

Some economists hold that competition, market economy and incentive of entrepreneurial profit are essential for generation of innovations. Competition certainly is. In fields like defence, nuclear and space technology, fierce international competition has promoted innovations in market economy and command economy countries alike. Falfout from such innovations motivated by

considerations other than profit has also benefited other industries. In the case of production of goods and services which cater largely to the varying and growing demands of consumers, however, entrepreneurial profit has been much more effective as a driving force behind innovations.

The consequences of innovations are complex and are associated with changes in relative prices, real incomes and physical pattern of employment of all inputs, especially in market economy regimes. The full ramifications of innovations can only be understood within an input-output framework, although for innovations in consumer goods alone their analysis may be somewhat simpler.

TRIPS

In the old days most of the innovations were unfettered by law, although trade secrets were important in many cases. But the urge to break trade secrets has also been a powerful factor promoting innovations. Later patent laws have been developed and used to provide some protection for innovations and make them more profitable. The net result seems to have been positive but not to the extent that the proponents of patent laws claim. Since patent laws varied from country to country with some differences in protection for processes and products, there has been considerable evasion of patents. The resulting competition that the patentees faced from other countries has tended to make them more cautious in exploiting to the full the monopoly power that the national patent laws *prima facie* accorded them. Substitutes also tended to dilute this monopoly power. This was not however an undesirable development from the standpoint of the consumers. Some of the owners of patents, if they were big corporations, have sought to curb this competition by forming cartels or taking some countervailing commercial action. In a number of cases they sought to put pressure on their competitors in other countries, who tended to dilute their monopoly power, by putting political pressure through their respective governments. However, there has always been a struggle between the early and late starters or 'haves' and 'have-nots' in the industrial field. Emerging industrial countries like Germany, Russia and Japan have sought to develop their own industrial capabilities by flouting the patent laws and cartel arrangements of the early starters like UK and France. But as they themselves developed industrially, they have tended to join the group of early starters and try to keep out new competitors.

This trend has gathered strength as knowledge came to acquire a very important position in the innovation process. As has been mentioned earlier, a very large proportion of modern growth has been found in developed

countries like the US to be due to the increased efficiency in the use of productive inputs through knowledge inputs and not to the growth of the quantity of the other resource inputs.

But knowledge is often costly and also risky to produce but very much easier and cheaper to copy. This tended to prompt some of the newly developing countries like India, Brazil, China, etc., to behave in the same way that Germany, Russia and Japan did formerly. That is why the US and most other developed countries or the 'haves' are now trying to curb the 'have-nots' by tightening traditional 'patent rights' into a more rigorous regime of Trade Related Intellectual Property Rights (TRIPS) through the Dunkel proposals for the GATT.

GATT, which was originally set up to promote free trade and free competition in the field of commodities, is now sought to be made an instrument for curbing competition and strengthening monopoly and oligopoly practices in the field of intellectual property rights. The penalty for violation will not merely be bilateral action as hitherto but international action not merely against the violation of the monopoly right in a particular process or product but against trade in all other products of the country of the violator.

This is being done ostensibly to promote innovations and economic growth. But inasmuch as intellectual property right under the proposed TRIPS regime will be more encompassing than traditional patent rights in many countries and can be sold and resold thereafter as an ordinary unencumbered property, it raises several questions.

Once such right is sold to some corporation which had nothing to do with the original innovation, it will not help further the original innovation or promote innovation. On the other hand, if the corporation which buys the right decides to suppress the innovation to protect its investment in the older process or product, as has often happened in the past, it will in reality deter the economic growth which might have resulted from a further diffusion and adaptation of the innovation. This cannot but be counter-productive. The kind of economic growth that Kahn envisages will not then materialise, at least within Kahn's time-frame.

This new monopoly of knowledge for the 'haves' against the 'have-nots' is no different from the old monopoly of knowledge that the brahmins imposed upon the shudras in an earlier era.

The monopoly that will be thus created will be no better than any other monopoly against which all advocates of free trade, Adam Smith onwards, have strongly argued. In any case GATT which is an organisation to promote free trade should not be used to help establish monopoly through such trade restriction. There is a strong case to take it out of the purview of GATT.

If the 'haves' so desire they may take up the issue in a specialised forum like World

Intellectual Property Rights Organisation (WIPO). That forum may then examine carefully and objectively whether intellectual property is identical with and should be treated exactly in the same way as other property and whether trade in intellectual property should be dealt with in the same manner as trade in commodities.

It is worth noting in this context that all other properties are not treated identically. For example, there are different types of rights and obligations in the case of land, e.g., freehold, leasehold, encumbered, special lien, prescribed use, restricted mutation, etc. What kind of rights and obligations should be, therefore, applied to different kinds of intellectual property? Mere designation of innovations as intellectual property would not be enough. Detailed consideration needs to be given to the rights and obligations related to different kinds of intellectual property. Similarly, different conditions often apply to trade in different kinds of commodities, e.g., perishable and non-perishable, drugs, arms, explosives, nuclear material, conditional or restricted or discriminatory trade, reimbursable deals, etc. All these require careful consideration before trade in intellectual property can be regarded as identical with trade in commodities. Dunkel has not done it nor is GATT the appropriate forum to go into all these. That is why consideration of such issues in a forum like WIPO seems more appropriate. Three other issues require also special consideration:

(i) There is a strong case for granting intellectual property right to the original innovator (individual or firm) with a view to meeting the cost and risk of innovation and rewarding the innovator. But there is no such justification for giving similar right to someone else who did not make any contribution whatsoever to the innovation but later simply bought it. On the other hand consideration needs also to be given to the possibility that the buyer may not only *not* promote innovation but may simply buy the innovation in order to suppress its diffusion so that his existing investment in older technology, machines, etc., may not lose in value.

(ii) There is a strong case for prescribing that if a patent or other intellectual property right is not used in a country within a prescribed period, it would lapse automatically. This is analogous to similar conditions imposed on land use in several countries.

(iii) There is strong justification for patenting a process alone to encourage innovation. But there is no such justification to patent both the process and the product. If someone else can produce the same product at less cost through a different process, there is no justification whatsoever to penalise him.

FUTURE TREND

As Kahn has rightly emphasised, the institutionalisation of the processes of innovation has greatly enhanced the possibility of its rapid growth in future. This is true of

both private and public sectors. On the other hand, the fall-out from one may actually help the other. But if the buyer of intellectual property right in an innovation suppresses it or blocks its fall-out, as has already happened with a large number of patents in the US and Europe, it may adversely affect the pace of future growth. The future growth rate projected by Kahn may then slow down very seriously.

If this does not happen, then the timetable for transition from industrial to super-industrial society indicated by Kahn may turn out to be roughly correct insofar as the overall growth rate is concerned, even without any special guidance. But the *inter se* position of different social groups and different countries may differ considerably. The relative position of the underprivileged, underdeveloped and late starters may be very adversely affected. This may create serious social and political tension, which in its turn may slow down growth. This possibility may in fact become considerable, resulting from the fact that in future the return from knowledge input will be progressively higher than that from material input. An increasing share of the national and world income will go to a small elite group who contributes to knowledge input.

This may call for guidance, if not control, by the political authorities at national and international levels. The more democratic these authorities are, the greater will be the effort to tilt the process in favour of the masses, while the elites will seek to oppose such tilt.

On balance, the possibility of the institutionalised innovation process being allowed unfettered sway seems unlikely even during the transition to the super-industrial society.

But the transition from super-industrial to post-industrial society, when the logistic curve of growth is predicted to slow down substantially will face other serious problems. Income-sharing problems tend to become more difficult when income is growing at a slower rate as in post-industrial society than at a faster rate as in super-industrial society, even if the level of income may be higher.

In post-industrial society, there may be some innovations favouring 'miniaturisation' but there will be also some requiring large-scale operation. While the former will favour decentralisation, the latter will push for greater centralisation. The resulting contradiction may have quite disturbing results not anticipated by Kahn.

The need for guidance both in regard to the course of innovations and distribution of income from national and international political authorities will, therefore, continue. The nature and effectiveness of this guidance will again depend on the composition and bias either way of these authorities.

This may be a less optimistic and arcadian picture of the future than Keynes and Kahn have presented, but perhaps more down to earth.

Financing Urban Local Governments

Issues and Approaches

Amresh Bagchi

Urban Public Finance in Developing Countries by Roy W Bahl and Johannes P Linn; World Bank, 1992; pp 552 + xiii.

I

MANAGEMENT of urban growth is now in the forefront of the policy concerns of developing countries. There was a time when attitudes toward urbanisation were ambivalent as national policies focused on rural development to stem the rural-urban migration that accompanies industrialisation. In recent years there has been a growing realisation that, after all, urbanisation is not quite an evil to be warded off at any cost; rather, urban conglomerates can contribute to growth in several ways, such as by facilitating the formation of skills, helping to reap the economies of scale in infrastructural investments and generating large pools of taxable capacity that can be tapped to finance the investments and provide the basic civic facilities. It is also recognised that there are links between macro-economic policies and the urban economy. In any case, urban explosion as a fall-out of growth is a reality that has to be recognised. Facts are too stark to be ignored. Between 1950 and 1990 urban population of developing countries grew four-fold, from under 300 million to 1.3 billion, and is projected to reach 2 billion by 2000 A D. As many as 17 out of 21 megacities of the world which are going to have 10 million people each will be in the developing countries. Management of urban growth, particularly, financing and delivery of essential services in the cities, has thus emerged as one of the top priorities of public policy in most developing countries. With national government budgets under severe pressure, a key policy question is, 'How can the cities pay their way?'

Policy-makers across the developing world have responded to the challenge of urban growth in various ways, each country evolving instruments and institutions best suited to its circumstance with varying degrees of success and there is already a considerable body of literature depicting individual country experience. There has, however, been little attempt to evaluate the results achieved in an analytical framework or draw lessons which can be generalised. Bahl and Linn have earned the gratitude of policy-makers and urban economists around the world by filling this gap and providing a compendium that can be drawn upon for guidance in the financing of urban local governments for years to come. There has no doubt been a resurgence of research

interest in urban management issues, of late, reflecting the recognition of their urgency, of which two notable ones are the World Bank's policy paper *Urban Policy and Economic Development: An Agenda for the 1990s* and the USAID publication *Urban Economics and National Development* by Peterson, Kingsley and Telgarsky. But none compares in breadth and depth with this truly encyclopaedic volume.

The output of a massive research project financed by the World Bank, the publication presents both theory and facts bearing on issues in urban finance with three-fold objectives, viz, improving the state of knowledge, helping to identify and examine the critical issues and developing appropriate criteria for public policy. The focus is on the fiscal problems of cities, for it is the growth of large cities that gives rise to special problems and, in the coming years, is going to demand a good share of the attention of planners and policy-makers in all developing countries. While the work is not without its shortcomings, it must be acknowledged that the authors have succeeded in achieving these objectives in good measure.

Sifting through massive data and literature on urban finances and issues, the authors have sought to appraise the performance of city governments across developing countries, comparing theory with practice in order to generalise about the way they respond to the challenges of urbanisation, problems they encounter, practices that have succeeded, and those that have failed. In the process they modify and adapt several of the standard analytical tools to developing country settings to take account of their institutional characteristics, distributional concerns and their administrative limitations. The contents, rich in both theory and facts, are presented in four parts: Part I sets out the analytical framework, Part II deals with taxes levied by local governments, their potential and problems, Part III discusses the principles and possibilities of user charges, and Part IV goes into issues in intergovernmental fiscal relations. The main conclusions and lessons for policy are recounted in an epilogue.

II

To put the issues in perspective, in Part I of the study the authors first assess the role of local governments in providing public

services in terms of their functions, share in total public spending and the functional distribution of their expenditures in selected cities from developing countries. Based on self-explanatory tables they also analyse how the urban governments finance their expenditures and their trends over the last two decades. Although generalisation is difficult because of wide variation across countries and cities and also differences in their reference periods, a few facts stand out.

On an average, about 15 per cent of total government spending and one-third of all urban area spending is accounted for by sub-national governments in developing countries. Together with the fact that their responsibilities often include major development functions such as public works, mass transit and primary education, a cross-country survey shows that local governments do play an important part in the development of large cities. Despite handicaps—population growth, inflation, and resource constraint—real per capita expenditure of local governments and autonomous agencies increased during the 1960s and the first half of the 1970s. In the 1980s, however, many cities saw real expenditure levels decline, signifying fiscal problems and a deterioration of civic services. There was also a trend towards central financing of urban services. Nevertheless, available evidence points to a continuing significant role of local governments in resource mobilisation and their potential.

In general, city governments meet about 70 per cent of their expenditure out of locally raised revenues (in some cities the proportion is incredibly high, e.g. 100 per cent in Karachi). There has however been a decline in the share of local revenues in the 1980s reflecting greater dependence on external sources usually controlled by higher level governments. Significantly, data from a few cities clearly suggest that the ability of local governments to enhance their services is determined to a great extent by the availability of their own source revenue. While some might feel sceptical about the precise statistics, given the limitations of local finance data, these assessments would seem to accord with the general perception about the primacy of own revenue in conditioning the service level of civic bodies.

Averages based on available data show that about 50 per cent of the local revenues is derived from taxes; the rest comes from self-financing services, but again the pattern is far from uniform across countries or cities. A variety of taxes are drawn upon by local governments, the property tax being the most common and often the dominant tax source. Although local tax revenue usually forms a relatively small proportion of total government revenues, theory as well as experience of several countries suggest that

improvement in their design and implementation can enhance the fiscal capacity of local governments significantly while minimising adverse equity or efficiency effects. The volume provides a balanced appraisal of the potential of various revenue sources—tax and non-tax—that urban local governments can draw upon to meet their ever increasing expenditure responsibilities, focusing on practices that have paid dividends. Discussion of local government taxes and charges for urban services takes up the best part of the publication spanning two out of its four parts. The practices in regard to both are appraised in a theoretical framework but in a language that should be intelligible to interested laymen and trained policy-makers alike.

III

Part II, made up of five chapters, explores at considerable length how urban governments can generate a larger share of their total revenue through taxation than at present. Though constrained by limitations of their fiscal powers, urban governments in search of revenue levy taxes of diverse kinds, many of them of no more than nuisance value. These are classified under five categories. Of these, the first, comprising three, viz, the property tax, the vehicle licence taxes and the entertainment taxes yield most of the revenue. Barring the tax on buildings, these are regarded as equitable and uncontroversial from the efficiency angle. Quite appropriately, appraisal of alternative systems and analysis of the incidence and allocative effects of urban property taxation occupy three of the five chapters of Part II. The relative merits and drawbacks of alternative bases adopted for property taxation are discussed at length. Suggestions based on experience and theoretical merits are put forward at the end that should be helpful in reforming and reinforcing the property tax systems of developing countries. The main conclusions emerging from the review of alternative systems are worth reproducing for their relevance in the strategy of reform.

First, property tax structure and administration go together and must be viewed as such while undertaking reform. Next, administration of property tax has four critical aspects, viz, property identification, record keeping, assessment, and collection. Attention must be paid to all of them if the taxation of property is to show better results. These, the authors argue, underline the need to view property tax as a system and not merely as a set of independent activities. While the striking success of collection-led strategy in improving the property tax yield in Indonesia would seem to belie the validity of this prognostication, there is no doubt a lot of merit in approaching property tax administration as a system with four interrelated dimensions,

calling for concerted attention.

Another conclusion underscores the valuable role of monitoring and quantification in identifying the weaknesses in the operation of property taxes. How helpful monitoring can be in this regard is brought home by the experience of Bogota. The ratio of effective to statutory rate of property tax in that city was no more than 0.5. Quantitative analysis found this to be attributable to a 32 per cent shortfall in collection below legal dues, exemption of 13 per cent of all assessed property values, and underassessment by 15 per cent. It was also discovered that the low income elasticity of property tax revenues stemmed mainly from the low elasticity of market values. While permanent improvement in buoyancy cannot come about merely through administrative changes, the systems approach can obviously help to locate weaknesses which undermine the revenue productivity of a given structure with a degree of precision not possible otherwise. An obvious prerequisite for application of quantitative techniques in diagnosing the ills of an administrative system, however, is a well-designed data base, a requirement few municipal governments in this country fulfil. Organising a reliable data base for local finance should be among the first priorities in any scheme of property tax reform in all developing countries.

While acknowledging that property tax systems do not lend themselves to evaluation in terms of definitive judgments, the authors offer ten generalisations that may be helpful in the formulation of tax reform in developing countries. Some of these might appear self-evident but are often ignored in practice, such as that the tax structure should be kept as simple as possible, with emphasis on improving the administration. However, there are a few which emerge from theory and might not be that obvious, e.g. that a flat rate property tax on all real estate is not likely to be regressive in either the short or the long run or that elimination of concession for owner-occupied properties can enhance the progressivity of the tax. Two other similar generalisations focus on the deleterious effect of a property transfer tax on the operation of urban land markets and the futility of land value increment taxation. Observers of property tax scene in developing countries would, of course, readily agree that in raising the buoyancy of property tax revenue there is no substitute for attention to administration.

One might wonder, however, whether the authors' scepticism about the transfer tax and land value increment tax is that well founded. Taiwan's success in implementing the land value increment tax with a top rate of 60 per cent (and a similar attempt in Korea to use a 50 per cent tax on the increase in the annual value of land) point to the potential of betterment taxes on urban land as a revenue raiser and also as an instrument to contain speculations in urban land and

impart a measure of equity in the tax incidence. In a subsequent chapter, the authors themselves acknowledge the potential of development charges in financing infrastructure investment in growing cities, although they have reservations about the merits of the betterment levy as such.

Although the analysis and prescriptions for property tax reform are in general incontestable, one may feel that they tend to be a little simplistic, even platitudinous at times, and fail to take into account the realities facing reformers in developing countries. The problems encountered in property tax reform in India and their links with the other components of the legal framework like the rent control laws come readily to mind. While there is a passing reference to the stagnation in property tax base arising from rent control in India the problem of valuation arising from the acute imperfections of urban real estate market—the high proportion of 'black' money in real property deals—do not seem to have received the attention it deserves. These problems are surely not peculiar to India, although it can be regarded as a serious road-block to improving property tax revenue buoyancy. It would be helpful if more attention was paid to the suitability of the presumptive approach in property valuation and the experience with area-based taxation in relation to real property than the authors thought appropriate. However, the general lessons drawn have their usefulness everywhere and ought to be heeded by policy-makers contemplating reform of their property tax system. The chapters on incidence of property taxation and its allocative effects provide a lucid exposition of the theory, both conventional and current, backed up with empirical analysis based on data from selected cities.

Of the other taxes which can rightly be assigned to urban governments, taxes on motor vehicles come out as the most promising, though often underutilised. The case for the taxation of the ownership and use of automobiles is built on three strong arguments: capturing a rapidly growing tax base, recovering the costs of public expenditure entailed by automobile use and containing their social cost (pollution). The bases available for automotive taxation are also examined in some detail—the fuel taxes, taxes on sale and transfer of motor vehicles, the unrestricted annual licence taxes and congestion taxes (restricted licences, parking fees, tolls, etc). A combination of these instruments appears to be the best way of taxing automobiles. Alternatives that offer good revenue potential without causing much efficiency loss are the unrestricted licence taxes and fuel taxes at differential rates according to the degree of congestion. Restricted licence taxes such as practised fruitfully in Singapore are also worth attention.

In addition to taxes on property and automobiles, local governments levy a variety of taxes to obtain revenue, though not many of

them are very productive. They are often antiquated, difficult to administer and bad from equity and efficiency angles. Yet they remain alive out of inertia and lack of any attempt at a comprehensive local tax reform. Some of them, however, have proved to be prolific revenue generators and tended to persist despite widespread condemnation. Taxes on industry and trade like the octroi and the sumptuary taxes continue to be relied upon heavily by local governments because of the facility they offer of raising amounts of revenue without resistance. A classic example in the Indian context is octroi. Possible alternatives which can beget substantial revenue without serious ill effects include local income taxes and general sales taxes. Reform to move away from harmful taxes on trade and commerce towards better alternatives however cannot make headway unless a viable alternative is offered. The study serves to focus attention on several of these alternatives. Policy-makers in India confronted with the task of finding ways of recompensing the municipal governments while pleading for the abolition of octroi and 'path kar' would do well to take a look at this part of the volume.

IV

Charging for user services also constitutes a potent source of urban revenue that can help improve the efficiency of resource use and investment decisions while securing the revenue needed to meet the costs of providing them in way acceptable to the people. Three substantial chapters comprising Part III of the work are devoted to a consideration of the principles and practices of pricing urban services focusing on public utilities (water supply, sewerage, electricity and telephones), social waste disposal, public transport, road construction and housing. Reference is also made to education, health, public markets, cemeteries and abattoirs, though only incidentally.

The major issues involved in the pricing of urban services are first gone into in a general context and examined from the angles of efficiency, fiscal constraints, equity and growth and also political and administrative feasibility. The relevance and implications of the basic welfare maximising rule of pricing—the marginal cost pricing rule, both short and long run—are expounded lucidly along with a critical review of the underlying assumptions affecting its applicability in the real world and adjustments and refinement that may be needed in implementation. The conclusion that setting user charges equal to marginal cost can increase the efficiency of resource use in urban development remains valid for rich and poor countries alike. It is recognised that problems arise in its application in developing countries from externalities, distortions in input and output prices, imperfect consumer information, administrative and transaction

costs, lumpiness of capital and so on. These are examined almost itemwise and solutions offered to achieve efficiency.

Strict adherence to the marginal cost pricing rule may cause deficits in the local government budgets, where there are large economies of scale or there is rapid technological change. The relative merits of alternative ways of taking care of the problem—general fund financing, multipart tariffs, uniform tariff—are discussed, bringing out the pitfalls and the trade-offs involved. Complexities that arise when distributional concerns are introduced are considered next and the theoretical constructs to meet them are summarised in a table. While they provide no universally applicable rule, the models serve to illumine the complexities of the task and thereby help as guide to policy.

There are analytical and practical issues that need to be addressed before the models can be used. The problems arise from factors like trade off among efficiency, revenue and distributional considerations, and the difficulties of estimating price elasticity of demand for public services and the incidence of public service benefits and charges and so on. The role of value judgments and the need for assessing the political and institutional setting in undertaking any reform of public service pricing are acknowledged.

How general principles can guide policy in practice is demonstrated in the next two chapters with reference to urban water supply and a few other urban services like electricity, telephones, solid waste collection, bus service and housing. The responsibility for electricity supply commonly rests on higher level governments or agencies, although there are instances where urban agencies are entrusted with the task of distribution (an example on hand is BEST of Bombay). Similarly, local telephone network and service are sometimes given to local agencies to run. Hence the relevance of guiding principles for pricing in respect of these services. However, issues as intricate as electricity or transport service pricing need much more extensive discussion than perhaps could be accorded in an omnibus chapter on "Charging for Other Urban Services". The authors evidently have tried to be comprehensive in their coverage but in the process compromised depth in places. The prescriptions for pricing some of the services comprised under this head might indeed raise eyebrows in poor countries, such as the proposition that public agencies should steer clear of direct involvement in the construction of urban shelter, and would do better to provide essential service inputs to the housing market. Anyone familiar with state of slums in cities like Bombay or Delhi (or perhaps the plight of street children in Latin American countries) would wonder whether the market can really take care of their less fortunate inhabitants.

There is, however, a section in this chapter which, though brief, merits special atten-

tion of authorities grappling with the problem of finding resources for improving the infrastructure of growing cities. This is on 'Development Charges'. While the authors are somewhat dismissive about the efficacy of instruments like the betterment levy in recouping public costs of urban infrastructure development, they highlight the success of development charges of two particular types used by local governments for urban development in some countries for quite some time. These are: the land readjustment systems of east Asia, and the valorisation schemes of Latin America.

Land readjustment systems have been in use in several countries at different times, such as Germany, Japan, the city of Perth in Australia and Taiwan and most extensively in recent times, in Korea. Introduced by Japan, this system has been used in Korea for practically all large residential urban developments and had helped the development of almost seven times as much urban land as the private market, especially as the urban fringes. In essence, the scheme envisages assembling of parcels of 'raw' land on urban fringes by a public agency without monetary compensation to the owners to be returned to them proportionately after servicing and subdivision for urban use, with a fraction retained for infrastructure like roads, open spaces and so on and some, to be sold for raising funds for development. Contrasting with the readjustment programmes, the valorisation schemes of Latin America, have served to finance infrastructure improvements in already subdivided or built up urban areas, by allocating the costs of improvement across beneficiaries.

While problems have been encountered in the implementation of these systems and the distributional impact (especially of the readjustment schemes) has tended to be adverse to small landowners, there is clearly a lesson to be drawn from the Korean experience, viz, that perhaps these offer a more effective and viable development mechanism than taxes or levies whose nexus to the benefits is not readily perceived. It may be of interest to Indian readers to know that mechanisms like land readjustment to finance urban infrastructure development are not unknown in this country. These were introduced in Gujarat and Maharashtra years ago but fell into virtual disuse for various reasons and are currently being revived in Maharashtra. Striking success has been achieved by public agencies in raising funds for urban infrastructure development through instruments of this kind (e.g. the surplus generated by the Bombay Metropolitan Regional Development Authority by acquiring, developing and then selling land on the fringes of the megacity and lent for development activities like investment in urban transport). Unfortunately, there is hardly any systematic attempt to appraise these schemes critically or disseminate the results of their operation among other states. The

need for exploiting the potential of instruments like these to help urban development is acquiring urgency in the context of the acute crunch that faces the public sector everywhere.

The last part of the work is devoted to issues in intergovernmental fiscal relations. The first of the three chapters comprised in this part deals with the 'Structure of Urban Governance'. In theory, the case for decentralisation in governmental organisation is almost overwhelming—it enhances the efficiency in the development of the size of the public sector and the composition of services preferred by the people, contributes to nation building by encouraging people to identify with governmental activity and helps resource mobilisation. The current structure of local governments in developing countries also reflects the commitment of national governments to decentralisation. Yet in practice, as noted at the outset, local governments account for less than one-sixth of total government spending in developing countries as compared to about one-third in industrial countries and even the measure of one-sixth is probably on the high side since, quite frequently, local governments exist in form but have little autonomy in reality.

What should be the optimum structure of government in a given situation however does not admit of a straightforward answer. The authors conclude their survey of theory and practice in this regard with the answer 'it depends'. However, the survey provides an idea of the kind of structures that have emerged in developing countries and their relative strengths and weaknesses—fragmented jurisdiction (many municipalities operating within a single urban area), metropolitan governmental set-up in conjunction with one or two autonomous agencies (to supply water, power or transport, for example) and functional fragmentation with independent agencies delivering specified services. It might be salutary to know in the present context in India with the enactment of laws to give constitutional status to city governments ('nagarpalikas') that the experience with local governments in the metropolitan areas of developing countries demonstrate the merit of a 'structure built on accommodation', emphasising at once, the role of local control and participation, central co-ordination and control and also technical efficiency. Blending the best of all three is what ultimately makes for optimal delivery of public services—a lesson that needs some reiteration in this country right now.

'Flows and Effects of Intergovernmental Transfers' constitutes the subject matter of the other chapter in this part. Given the limitations of the tax and borrowing powers of local governments arising from consider-

ations of efficiency and central control over macro-management of the economy, arrangements for the flow of funds from higher level governments through shared taxes, grants and loans are a universal adjunct of decentralised governance. How to institutionalise these flows to take care of the expenditure needs of lower level governments without treading on their autonomy constitutes the essence of what is known as fiscal federalism. The task is not simple, as the experience in India and several other federations amply show. While a formal arrangement for transfers can assure adequacy of resources to local governments, automated flow of funds tend to breed fiscal irresponsibility. Nevertheless intergovernmental transfers form a major source of local government finance in most developing countries and their share in local government revenue seems to be increasing (in Calcutta, for instance, 55 per cent in 1982 as against 19 per cent in 1975). How to structure them to achieve the desired results while preserving the incentives for economy and raising revenues on their own remains a challenge for fiscal planners everywhere. The volume under review provides a digest of the various forms in which the intergovernmental flows can be structured and their merits and drawbacks.

Grants and tax sharing can be arranged in several ways, and the determination of their quantum and distribution among the lower level governments (e.g., voting by the national legislature annually) can be either *ad hoc* or formula based. A variety of arrangements is possible, each with its merits and drawbacks. Forms of tax sharing and grants with local and state governments in selected developing countries are summarised in two neatly arranged tables. Principles for evaluating the alternatives in terms of their allocative and equalising effects as also implications for revenue adequacy, efficient functioning and autonomy of local governments are also put forward with an illuminating, though brief, discussion of their relevance in designing an optimal structure of intergovernmental flows, drawing again from theoretical literature and experience.

The sobering conclusion is that no single policy instrument like grants can achieve all the objectives. Attempts to serve several objectives simultaneously, like equalisation of fiscal capacity across jurisdictions and stimulating local government tax effort while minimising administration cost and promoting local autonomy may end up by achieving little in any direction as the effect of one may be neutralised by that of the other. As in most other areas of public policy, one has to set priorities and attach weights to each objective in that light.

The last chapter consists of an epilogue setting out the main conclusions, not just by way of a summary, but as an overview of the issues and lessons. While in parts, it might

look a little too bland, policy-makers, hardpressed for time, might profit from a reading of this chapter alone. It might whet their appetite for a look at the preceding parts of the volume.

All in all, the publication is a most welcome and valuable contribution to the literature on local government finance. It presents in a single volume a comprehensive and at the same time in-depth survey of the major issues and problems in financing the expenditures of urban governments, drawing on both state-of-the-art theory and experience. For a long time to come it will remain a reference compendium for researchers and planners engaged in finding the means of managing urban growth in developing economies. Of course, drawbacks do come to notice when one takes a close look. For instance, doubts arise on the quality of the data as one stumbles on statements such as this: "all local governments in metropolitan Bombay spent the equivalent of \$55 per capita in 1982, which was 43 per cent of estimated total (central, state and local) government spending in the Bombay metropolitan area" (p 13). Anyone familiar with the structure of government in India and the relative shares of the centre, states and local authorities in the total expenditure of government would find such a figure a little astonishing. Another shortcoming is that much of the data relied upon in generalising about the expenditure and revenue structure of local governments relate to 1970s and early 1980s. Rarely do they relate to any year beyond 1985. One does not know whether the trends noticed till the mid-80s persisted through the latter half of the decade or there was any change of course.

Also, in their anxiety to present a respectable coverage in terms of issues and geographical spread of their survey the authors seem to have missed out some of intractable problems in finding resources for urban governance. The prescription for greater reliance on property tax, for instance, is unexceptionable. Unfortunately, the fact remains that it is an unpopular tax. Despite prodding, few local governments in the world seem to have mustered the will to use it with any perseverance or seriousness of intent. In the circumstances, the real alternatives have to be looked for elsewhere. How to find alternatives which would respect considerations of economic efficiency and avoid extra-territorial taxation is a task that does not seem to have been squarely addressed.

It may not, however, be fair to demand answers to all country or city specific problems from a framework meant for general application. Perhaps, a volume like this cannot afford to get enmeshed in tackling uncommon issues. Nevertheless, given the constraints of keeping the coverage manageable and the aim of addressing a wide audience, the authors have done an admirable job.



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A Matter of 'Fact'

M S S Pandian

The Legal Profession in Colonial South India by John J Paul; Oxford University Press, Bombay, 1991; pp xii+265, Rs 250.

TRUE to its blurb, John Paul's book on the legal profession in colonial south India attempts to trace "the development of Indian lawyers, otherwise known as pleaders or vakils, since the beginning of British rule in the Madras Presidency". The book tells its story in four parts, eight chapters and three appendices.

Part I of the book deals with the 'beginnings' of the legal profession in the East India Company courts. Here the reader is provided with such details as the Company's efforts to introduce and enforce formal procedures for conducting cases in courts, the tardy development of legal education in the Madras Presidency which began with a short-lived course at the college of Fort St George in 1816, and the successful mimicking of barristers by the Indian pleaders as barristers were allowed to practise along with pleaders in the Company courts after 1846.

Against this background, part II begins with an account of the merger of Company and Crown courts and the founding of the Madras High Court in 1862. It proceeds further to explore the conflicting rights and privileges of three different groups of legal practitioners in the high court, viz. advocates/barristers, vakils and attorneys. The persistent conflict among these three groups to retain/expand their share in the legal profession and the eventual success of the vakils in this conflict constitute the main body of this section. It traces how vakils were initially allowed to practise only on the Appellate side while the barristers practised both on the Original and the Appellate sides; and how vakils, once allowed to practise in the Original side also, outdid the barristers and expanded their trade.

In parts III and IV, the book details the gradual obliteration of the distinctions between barristers and vakils and how, in course of time, the vakils unassailably affirmed their position in the legal profession in the Madras Presidency. The birth of the Madras High Court Vakils Association (which took up such issues as the professional dress to be worn, rules for the enrolment of apprentices and share in judicial appointments by the government) as well as the creation of the Indian Bar Council in 1928 marked this phase of vakil ascendancy. The reader is also given a brief account of the unsuccessful moves by the non-Brahmin vakils to challenge the Brahmin-dominated Vakils Association in which, between 1889 and 1920, only two non-Brahmins held the office of president.

The book is primarily a stringing together of so-called facts without any worthwhile analytical insight. This failure is a result of the author's conscious choice of method. In the opening page of book, John Paul notes, "The purpose of this book is neither legal nor theoretical, but empirical and historical" (p 1). The meaning of this straightforward statement comes through clearly as one reads the book: the author's attempt is to give a chronology of 'theory-neutral' facts as history and flee from categories and generalisations.

While privileging a certain chronology (in this case, a chronology with government acts as prominent historical markers) itself stands in, violation of claims to theory-neutral empirical knowledge, the book inevitably strays into the self-prohibited landscape of subjectivity and evaluatory judgments. For instance, the legal system introduced by the British becomes 'rationally based judicial system' (p 17), 1857 becomes a 'mutiny' and 'grim and horrible events' (p 39), and the non-Brahmin movement in the Madras Presidency becomes 'a virus' (p 148). What is more, this non-theoretical study smuggles through the backdoor the much discredited faction theory of Cambridge brand to explain away the conflicts between the Brahmin and the non-Brahmin vakils. Thus the passion for unmediated empirical truth fails to be consummated in the book.

Though at one level the delusion of theory-neutrality takes its beating in the book itself, at another level the author's self-conscious attempt to stick to the empirical as such leads to extreme poverty of analysis. Let me cite just one instance from the beginning of the book as an illustration. Regulation XIV of 1816 prescribed that "pleading must be prepared in conformity with the law and should contain neither repetition nor personal abuse of the opposite party or officials of the court" and the book, from this, draws the tautological conclusion that "pleaders seemed to have been ignorant of or somewhat indifferent to the rules of procedure, but tended to bring into pleadings all sorts of extraneous details and numerous irrelevant points"—as if there is no meaning outside the so-called literal meaning. One need not belabour the point that 'repetition', 'personal abuses', 'conformity with law', 'extraneous details', indifference to 'rules of procedure' and so on are carriers of multiple and contesting meanings in any context, especially in the colo-

nial context. To read such meanings is to go beyond the 'empirical'—John Paul resists such temptations and leaves everything to the reader's imagination.

As much as literal meaning, enumerable facts too occupy a privileged place in the book to the marginalisation of other sorts of source material. This too is an obvious product of the book's method. A striking example may be the way in which the book reduces the Brahmin's hold over the legal profession in the Presidency almost fully to their numerical preponderance in legal education, though his own sources contain fascinating details about the ideological processes legitimising this preponderance. Let us take, for instance, the high court vakil M K Venkateswara Aiyar's book, *True Brahminism in Life and Law* (Madras, 1928), which finds a place in John Paul's bibliography. This book, which got the approval of 'His Blessed Holiness the Jagatguru Sri Chandrasekhara Saraswati, the Head of Kanchi Kamakoti Mutt...', carefully constructs an image of a Brahmin as the rightful arbitrator of dharma and subtly extends this to validate Brahmins' near monopoly over the legal profession:

Many may be surprised to learn that there are several common elements in the lives of a Vakil and Brahmana as such... The law of correspondence between a Vakil's life and Vedic life is wonderfully exact in its working as the Court Vyavahara is similar to Jagat Vyavahara. Brahmanas of Jagat Vyavahara as Vakils help the administration of justice by advocating legal principles... As a matter of fact, Court Vyavahara is a specimen of Jagat Vyavahara. The true Brahmana helps fellow-beings in finding out the eternal Saiya or reality, i.e. Paramatma underlying the world phenomena, and inspires Dharma-prachara. The Vakil helps the court in finding out the truth and administering justice... falsehood, fraud, ignorance etc, called Maya which clouds truth and justice are the same in both Court and Jagat Vyavahara.

Recommending this book, V S Narayana Ayyar, a retired district judge noted, "To explain why Brahmins take up legal profession, the common element in a Vakil and a Brahmin have been brought out with great skill... the attempt of the author to bring about the revival of Vedic civilisation will be crowned with success"

Such innumerable material, which can be read with profit to yield theoretically-informed insights of importance, ceases to be of any use to the book under review. One understands the difficulties in marrying 'theory neutrality' with the study of ideology. Then, it is not merely the enumerable Court Vyavahara that is history, but its interaction with innumerable Jagat Vyavahara too. For such history of richness, one has to look elsewhere and not in this book.

Purchasing Power Parity, Unequal Exchange and Foreign Direct Investment

Ranjit Sau

The IMF, the UN, and the World Bank are using the PPP doctrine. This paper shows that by the PPP criterion, the currencies of developing countries are undervalued, not overvalued as the conventional wisdom maintains. It proves that trade with such undervalued currency implies an adverse unequal exchange. For foreign capital now there are two channels of profit: production, and trade. Gains from unequal exchange deters foreign direct investment.

Nowadays the volume of asset transaction far outstrips the merchandise trade in world markets. This paper argues for an extension of the PPP measure to include assets as well as current products. The UN International Comparison Programme ought to take note of this aspect.

IN the *World Economic Outlook*, 1993, the International Monetary Fund has released certain startling figures. Measured in purchasing power parity (PPP) of national currencies the gross domestic product of India is the sixth largest in the world. China is the third, ranking economic superpower just behind the United States and Japan. The PPP-based exchange rate, we know, relates essentially a commodity standard of money, with a slice of the gross domestic product of the US as a frame of reference in this particular instance. It assumes the law of one price across nations.

This numeraire has acquired widespread recognition in the works of multilateral agencies. Since 1968 the United Nations International Comparison Programme (ICP) is engaged in computing the PPP exchange rates. The celebrated 'human development index' of nations constructed annually by the UN Development Programme uses the ICP results. The World Bank also publishes ICP estimates of gross domestic product per capita.

The matter recently drew considerable public attention after the IMF reported its findings. It has far-reaching implications, *inter alia*, with respect to financing by multilateral agencies. The subject deserves intensive research and debate.

The gross domestic product of a country is estimated in its own national currency. For international comparison this nominal GDP is then converted into US dollar deflating it by the market exchange rate which is, by definition, the price of one dollar in the market in terms of the national currency. This is the traditional method [World Bank 1992:287]. The table, col 1, gives such GDP per capita.

Now, there is another numeraire, called the *international dollar*, denoted by IS. It 'has the same purchasing power over total

GDP as the US dollar in a given year' [ibid:299]. As IS is essentially a basket of real goods and services that one US dollar can buy in the US. The market value of this particular collection of commodities in another country is, in effect, the exchange rate for IS in that country's currency. And this value is the PPP exchange rate for dollar, as distinct from its market exchange rate cited above.

When the nominal GDP of a country is deflated by the PPP exchange rate we get the GDP in terms of IS. The IMF has adopted this nonconventional procedure. The table, col 2, gives such GDP per capita.

Dividing col 1 by col 2 one finds the ratio between the PPP exchange rate and the market exchange rate. It is shown in col 3.

Here is a paradox. For long we have been accustomed to hearing that the currencies of developing economies like Brazil, China, India, and South Korea are overvalued. The IMF has, therefore, often advised devaluation. Contrary to this conventional wisdom, the table, col 3, reveals that the currencies of 12 major developing countries are *undervalued* in the sense that the PPP exchange rate is less than the market exchange rate. Of course, there are several other notions of under- or over-valuation [Frankel 1985].

Undervaluation, as defined here, implies prevalence of unequal exchange in international trade, adverse to these countries. In the world money market the India rupee, for example, is worth only 26.1 per cent of its purchasing power over the US gross domestic product. It means that India's presently exported merchandise of 20 billion dollar is otherwise worth about four times as much.

By contrast, the currencies of seven developed countries of the table are *overvalued* in the market relative to the US dollar. That is to say, the US dollar is *undervalued* vis-à-vis these currencies. Evidently, Germany,

Japan, and France are at the top of such grading.

This essay explores the relationship between the PPP exchange rate and the so-called unequal exchange. It also examines the dilemma of foreign direct investment in this context. In Section I we shall formulate the concept of unequal exchange, and prove that departure of the market exchange rate from the PPP entails unequal exchange.

Section II is devoted to foreign direct investment. Conceptually, there are two channels of profit-trade and production. Under the circumstances, how does capital of an advanced economy split itself into two parts -one for domestic investment in the advanced economy itself, and the other for foreign direct investment (FDI) in a relatively backward economy that suffers from unequal exchange? In the current era of liberalisation India, like many other countries, is eager to attract FDI. So this question has become all the more relevant.

The intellectual origins of the PPP can be traced to the early 19th century and the writings of David Ricardo [Dornbusch 1987, Frankel 1978]. The term as such was coined by the Swedish economist, Gustav Cassel (1923), who studied alternative approaches for selecting official exchange rates at the end of the first world war and the resumption of international trade.

Meanwhile there has been a sea-change in the field of international transactions. Today, turnover of foreign exchange as an asset far outweighs that as a medium of exchange in merchandise trade. The concept and measurement of PPP, therefore, need an extension. This point is argued in Section III.

There is a fairly rich and copious literature on unequal exchange. Samuelson (1978) has expressed his reservations on it; so have many others. Our proof of the unequal ex-

It can be shown that the term in the left-hand-side of (19) is the interest-rate weighted total labour-content per unit of x , and that in the other side is the similar labour-content of y [Sraffa 1960:34-35]. By the criterion of labour-content, therefore, this is an instance of unequal exchange, favourable to the high-wage country that uses capital-intensive technique of production [Sau 1978:55-58].

In a monetised world economy all international transactions necessarily involve the exchange rate. We have simplified the picture by (18). Any empirical test of the theory of unequal exchange must have a hypothesis on the exchange rate. Otherwise the test would be infructuous.

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Subaltern Consciousness and Historiography of Indian Rebellion of 1857

Darshan Perusek

The subaltern historians' rewriting of history has two objectives: (1) the dismantling of elitist historiography by decoding biases and value judgments in records, testimonies, and narratives of the ruling-classes; and (2) the restoration to subaltern groups of their 'agency', their role in history as 'subjects', with an ideology and a political agenda of their own. While the first objective has yielded some interesting and important insights, the second has led to results which have been, at best, problematic, and, at worst, tediously neo-antiquarian and remarkably unremarkable in their banality. These problems derive from the contradictions and confusions inherent in the very concept of subalternity as a socio/political category.

MY interest in the 1857 rebellion is more than academic. It has partly to do with the story of how my great-grandfather Baba Karak Singh was awarded a 'jagir' (an estate and its revenues) by the British for 'loyalty', in the midst of a 'contagion' of betrayal and treachery by mutinous sepoys (soldiers) and disaffected landlords, magnates and peasants. Faithful to his masters, the old man, so the family legend goes, rode like the wind on a dark and moonless night to bring to the officer in charge details of the secret military plans of the rebels. My great-grandfather's name does not appear in any official roll-call of heroes or villains, pre-independence or post-independence; he was too minor a figure, too insignificant to be deserving of such notice by history. But he was remembered very well by his children and their children for the ill-gotten land that he left them, which grew sugarcane that sharecroppers planted and harvested and paid one-third as revenue to him, and the freshness and sweetness of which my mother could still taste in her mouth years later when she spoke of Baba Karak Singh and his family jagir. So much for innocence.

But I tell this story less as a confession of complicity by inheritance than as an explanation of the initial enthusiasm with which I read in the early 80s the first essays in Indian social history by a group of post-independence historians in *Subaltern Studies: Writings on South Asian History and Society*, the first volume of which appeared in 1982 under the general editorship of Ranajit Guha of the Research Institute of Pacific Studies at the Australian National University, Canberra. "The historiography of Indian nationalism", Guha stated in the first essay in the volume, "has for a long time been dominated by elitism—colonialist elitism and bourgeois-nationalist elitism" [*'Historiography of Colonial India', Subaltern Studies, Vol 1, p 1*—an elitism which saw the making of the Indian nation, predominantly, as the achievement

of ruling class ideas, institutions, and personalities.

What is excluded or, if present, marginalised, in these narratives, he charged, was the 'politics of the people' which, in his view, was autonomous and existed parallel to the domain of elite politics throughout the colonial period. This was politics "in which the principal actors were not the dominant groups of the indigenous society or the colonial authorities but the 'subaltern' classes and groups constituting the mass of the labouring population and the intermediate strata in town and country" [p 4].

To write history from the subaltern point of view, as Guha makes clear later in this essay, is at once to declare an 'interest'—that is, to confess to the 'contamination' of subjectivity in an enterprise which makes a point of defining itself in terms of its disinterestedness and neutrality *vis-a-vis* the 'raw material' of history (historical records, eyewitness reports, census data, etc). It is, in other words, to make clear the historians' positionality with regard to the structures of power as they obtain within a given social formation. Thus, Guha says without equivocation that "the dominant groups will receive in these volumes the consideration they deserve without, however, being endowed with the *spurious* primacy assigned to them by the long-standing tradition of elitism in South Asian studies" [Preface, *Selected Subaltern Studies*, p 35, *Italics added*].

Guha's characterisation of the primacy attached to dominant groups by traditional ruling class historiography as 'spurious' is, of course, provocative and intended to be so. As Edward Said observed, "Theirs [the subaltern historians'] is no history of ideas, no calmly Olympian narrative of events, no disengaged objective recital of facts. It is rather sharply contestatory, an attempt to wrest control of the past from its scribes and curators in the present, since...much of the past continues in the present" [Foreword to

Selected Subaltern Studies, p viii].

This was heady stuff, really. One knew that history was biased, that there was no such things as 'value-free', 'objective' history, but the rules of the game, so far as one knew it, involved revealing the bias in other historians' work and hiding your own as cleverly as possible. To confess your own bias? This was unheard of and audacious and honest. And this business of "wresting the past from its scribes and curators in the present"—this was no mere fighting the windmills either, for one had the vague suspicion that notwithstanding 'full-blooded' nationalist reconstructions of the past, colonialist historiography continued to survive, albeit in more decorous and subdued forms, in the corridors of Oxbridge. In fact, my reading of Eric Stokes's *The Peasant and the Raj* and *The Peasant Armed*, necessary and illuminating readings for any scholar of the period, later proved that such forebodings were no chimera of my mind.

This explicitly combative stance of the new historians was in itself a promise of good things to come. What seemed equally promising was a serious corrective, by their insistence on the importance of the cultural dimension of social life, to the 'lacks' in the already existing tradition of 'history from below'—that is, of some strands of Marxist history. Early Marxian history, as Elizabeth Fox-Genovese and Eugene D Genovese observe, was committed less to recording the totality of social life than to the classes that contended for state power, and its major contributions to history lay in its documentation and chronicling of this struggle in its economic and political aspects. Social history, rather than being a history of social life in all its multitudinous aspects, thus tended to be a history of organised labour or the history of the socialist movement and, as such, "it could, by its manifestation of names, dates, and generously sprinkled initials, rival a history of monarchs or of bourgeois political parties". They conclude correctly

that a socialist sensibility, of itself, "could not suffice to break through the methodological hegemony of accepted historical practice" [*The Political Crisis of Social History* in *Fruits of Merchant Capital: Slavery and Bourgeois Property in the Rise and Expansion of Capitalism*, p 180].

It is this methodological hegemony, insofar as it continues to foreground economics and marginalise culture, that subaltern historians, drawing upon anthropological, linguistic, and psychological theories and data, appeared to repudiate, not Marxism itself. Thus, when Dipesh Chakrabarty, in his study of the working conditions of jute workers in Calcutta from 1890-1940, proposed that such a study could not stop at the purely economic but "must push itself into the realm of working class culture", he clarified immediately that in insisting on the importance of the cultural dimension of working class history, he was arguing *with* Marx, not *against* him [*Conditions for Knowledge of Working Class Conditions: Employers, Government, and the Jute Workers of Calcutta* in *Subaltern Studies I*, 1983, p 259].

So far so good. We were going to witness, it seemed, the birth of a true 'history from below', a social history that would add a new dimension to class struggle by presenting the totality of society in all its inter-connectedness and density of emotional, psychological, and material life. At a more immediate and personal level, I was going to see and understand the Baba Karak Singhs of 1857, those who saw in the uprising a chance to secure a place for themselves and their children to come in the colonial order, as well as those who, for a variety of reasons, were engaged in a mortal struggle against that order; those who, for instance, William Russell, reporter for *The Times*, saw as he followed Colin Campbell en route to Lucknow: "Look! Look! The woods are alive with men in white running back toward Lucknow! See that stream of horsemen rushing towards the Kakraal bridge!"—and the faces close up—"the slight, tall, dark-coloured Hindu" with the shattered leg of whom Russell observed with clinical interest: "The blood does not show as much on the dark skin as on the white" [*My Indian Mutiny Diary*, p 86]. The crowds and individuals that Russell saw were all fighting the colonial power of the British. Were they all fighting for the same reasons? Or did their struggle encompass a variety of congruent and conflicting motives?

The promise, I must report with some disappointment, proved to be brighter than the actual achievements of subaltern historiography demonstrate, for reasons which will be explained in a later section

of this paper. I will now proceed to the events of the uprising itself and the main contours of colonialist and nationalist versions of the meaning of these events.

BRIEF NOTE ON THE EVENTS OF THE UPRISING

What is called the 'sepoys mutiny' by colonialist historians and 'the first war of independence' by nationalist, broke out on May 10, 1857, in Meerut, a British cantonment about 36 miles north-east of Delhi, after a series of telling incidents in Dum Dum, near Calcutta, resulting from rumours about cartridges soaked in cow and pork fat. The most dramatic of such incidents occurred on Sunday, March 29, when General Hearsey, the officer commanding the presidency division, was informed by a young lieutenant about a riot in the Indian lines. The cause of the disturbance was Mangal Pandey, a sepoy, who seemed to be under the influence of some intoxicating drug and was "rampaging about with a loaded musket", shouting to his fellow sepoys: "Come out, you bainchutes, the Europeans are here! Why aren't you getting ready? It's for our religion! From biting these cartridges we shall become infidels. Get ready! Turn out all of you! You have incited me to do this and now you bainchutes, you will not follow me!" [cited in Christopher Hibbert, *The Great Mutiny*, p 68].

Mangal Pandey was restrained and overpowered with the help of a Muslim sepoy, Shaikh Paltu, tried, and sentenced to death. When asked to explain his conduct, he readily admitted he had been taking bhang (hashish) and opium of late, but refused to give the names of any persons who had 'incited' him to mutiny: "Of my own free will", he answered when asked who had made him do what he had done. Later, during the course of the war, all rebels were called 'pandys', after Mangal Pandey. Thus Russell makes the following observations in *My Indian Mutiny Diary*: "I had a canter about Pandy's deserted trenches" [p 86] and "In all my wanderings today I saw only three or four 'pandies' in extremis" [p 87].

What happened in Meerut on the day before the sepoys mutinied also had to do with greased cartridges and the fear of pollution and loss of religion. A parade of the 3rd Native Light Cavalry had been ordered for the morning of the 6th of May. When cartridges were passed out, 86 of the sepoys refused to accept them, despite persuasion or threats by the brigadier. A court of inquiry was immediately held; the 86 men were tried, condemned, and sentenced to 10 years imprisonment with hard labour. The sentences were read out on the parade

ground before an assembly of 1,700 British troops, with guns and rifles loaded, and a smaller number of Indian troops. They were stripped off their uniforms, their boots were removed, and their ankles shackled.

The mutiny broke out the following evening, with one group of sepoys freeing the 86 convicted men from the new gaol, and another opening the doors of the old gaol to let out 800 prisoners. The sepoys were joined by civilians and, later, by men from surrounding villages, armed with whatever weapons they could lay their hands on. According to later British accounts, the town was soon in flames, sepoys and civilians looted stores and smashed the contents of wineshops. By next morning, May 11, about 50 British men, women, and children were dead, and the mutinous troops had marched into Delhi, where they presented themselves before Bahadur Shah, the 82-year old Moghul king, descendant of the powerful Moghul dynasty and now pensioner of the British, and asked him to assume leadership of the rebellion.

Thus began the rebellion which was to spread across all the major stations in the north-western provinces and in Oudh and beyond, was joined by civilians (peasants), and lasted well into November 1859. Within a month of the Meerut mutiny, the British held only the fort at Agra, a few entrenchments at Kanpur, and the residency at Lucknow. Lord Canning, governor-general, was to write on June 19, 1857: "In Rohilkund and the Doab from Delhi to Cawnpore and Allahabad the country is not only in rebellion against us, but is utterly lawless. Every man's hand is against his neighbour's, and nothing but our presence there in force and the patient hunting out and exemplary punishment of every mutineer and rebel will restore complete order" [cited in Thomas Metcalfe, *The Aftermath of Revolt: India 1857-1870*, p 49].

For both colonialist and nationalist historians of the rebellion, the primary material for reconstruction of the events of the rebellion and its meaning is the body of memoirs, journals, reminiscences, histories, and personal narratives that began to make their appearance even before the rebellion was defeated, and which swelled into a veritable flood during the succeeding decades of the 19th century. The entire corpus of this primary material is the work of British administrators, military staff and officers, soldiers, reporters, and civilians who were in some way connected with or actually participated in the war. Only one contemporary account by an Indian exists, that by Sir Sayyid Ahmed Khan in his 'An Essay on the Causes of the Indian Revolt'

[1860]. The point of view of the rebels survives only in the correspondence by rebel leaders with representatives of the colonial state (e.g. Nana Saheb's *Ishtahar* to the Queen of England, April 26, 1859) or in proclamations addressed by rebel leaders to their followers (e.g. the 1857 proclamation of Khan Bahadur Khan, nawab of Bareilly, suggesting terms on which Hindus and Muslims could reconcile their differences and combine to overthrow the British). The thousands of rebel sepoys and peasants (who often came from the same villages or even the same families) are present in the primary material only by their total and complete silence.

COLONIALIST AND NATIONALIST HISTORIOGRAPHY

Interpretation, Frederic Jameson says, can be construed as an essentially allegorical act, which consists in re-writing a given text in terms of a particular interpretive "master-code"; furthermore, this interpretation is not "an isolated act, but takes place within a Homeric battlefield, on which a host of interpretive options are either openly or implicitly in conflict" [Jameson, 'Preface', in *The Political Unconscious*, pp 10, 13]. The voice of the Indian rebels being silent in the 1857 uprising, the ideological battlefield was not, in any sense of the term, a battlefield at all but an uncontested territory in which the allegories of the dominant group could have free and wide-ranging play. Thus George Trevelyan, son of the governor of Madras, is transported, literally, back to a Homeric battlefield in the following: "There is much in common between Leonidas dressing his hair before he went to his last fight, and Colvin laughing over his rice and salt while bullets pattered on the wall like hail. As in the days of old Homer, cowards gain neither honour nor safety" [cited in S B Chaudhari, *English Historical Writings*, p 265]. And G B Malleon, the anonymous author of *The Mutiny of the Bengal Army* and later, with Kaye, of *The Indian Mutiny of 1857* [1891], incorporates the victory of the British in the war into the larger history of British victories: "the spirit that had animated Raleigh, that had inspired Drake, that had given invincible force to the soldiers of Cromwell, that had dealt the first blow to the conqueror of Europe, lived in these men. It was that spirit born of freedom which filled their hearts with the conviction that being Englishmen, they are bound to conquer" [cited in S B Chaudhari, p 269]. All of this leads to the final, indisputable meaning of the conflict, as allegorised by an American mis-

sionary R B Minturn in *From New York to Delhi, by way of Rio De Janeiro, Australia, and China*, 1858: "Asiatic courage is of one kind, European of another, and the former bow before the latter...If one thing has been demonstrated by the recent mutiny, it is the indescribable moral inferiority of the Asiatic races." And then, like Trevelyan, Minturn too is transported, not to the Homeric battlefield, but into a kind of ecstasy of gratitude: "May Heaven bless the British Nation! May God save the British Queen! Ah Yes! And let every lover of liberty and civilisation... in our own happy American say, from the depths of his heart, Amen!" [cited in S B Chaudhari, p 263].

When the battle was joined by Indian nationalists, the meaning of the conflict underwent a radical change. It was now symbolic of the love of liberty and the resentment against oppression that burned in the heart of every Indian. In the centennial publication, *Rebellion: 1857*, P C Gupta, author of *Nana Sahib and the Rising at Cawnpore*, 1963, writes that although references to the uprising in Hindi literature were few, references to the economic plunder and exploitation were many. One becomes aware, he says, in these writings of a constant feeling of humiliation and misery seeping through all modern Hindi literature, a "feeling of sorrow that this great land has been humbled and laid waste by the foreigner". It is a feeling that comes through, as well, in the folk tradition, witness the following Bhojpuri song:

The bark of the foreigner is now reeling
The country is sunk in poverty;
In midstream his bark reels.
Famine and disease increase in the land,
The clouds of trouble rumble;
In the river of sorrow there are fathomless waters,
The winds of tyranny blow fiercely across the land.
The ruler-pilot is drunken-mad;
We appeal to him, but he says not a word.
O foreigner, your boat is doomed;
Your funeral procession begins on the river!

[from Krishna Deo Upadhyaya Bhojpuri Gram-geet, pp 383-84 in *Rebellion: 1857*, p 233].

Both versions of the uprising follow, broadly speaking, the same narrative pattern: causes of the uprising, the events of the uprising itself, and the aftermath of the uprising. Thus John Williams Kaye's *History of the Sepoy War* (3 vols), 1867, a source book for all subsequent histories of the war, offers a detailed account of all the mutinies which preceded 1857, describes the heavy-handed manner in which the government tampered with the pay of the sepoys, criticises Dalhousie's

annexation of Awadh and his alienation of the Indian elite groups, and points to economic factors like over-assessment of land revenue and resumption of old hereditary grants as causes of the revolt. Among the cultural factors, he lists as a prime reason the misguided policy, resulting from a well-intentioned desire to disseminate Christian enlightenment in a superstitious and decadent society, of tampering with native customs and 'superstitions'. In the same manner, the Indian historian R C Majumdar's, *The Sepoy Mutiny and the Revolt of 1857* [1957], after a chapter entitled 'Expansion of British Dominions', lists like causes of the uprising: ruin of trade and industry, oppressive agrarian policy, discontent due to social and religious causes, discontent due to the administrative system, and finally, discontent and disaffection among the sepoys. With some differences in emphasis, the causes of the revolt in both versions cover the same territory, the colonialist being more sensitive to British sensibilities and constraints, the nationalist more understanding of the rebels' frustration and anger.

The aftermath of the revolt shows more striking divergences, with the colonialist version generally emphasising the prevalence among the British of reason and discipline after the 'excesses' of 'natural passions' of revenge and demands of 'blood for blood', and the nationalist detailing the excesses of the British themselves. Thus Malleon in his *The Indian Mutiny of 1857*, concludes his narrative with the following paragraph intended to "disabuse the minds of those who may have been influenced by rumours current at the period as to the nature of the retaliation dealt out to the rebels by the British soldiers in the hour of their triumph":

I have examined all those rumours—I have searched out the details attending the storming of Delhi, of Lakhnao, and of Jhansi—and I can emphatically declare that, not only was the retaliation not excessive, it did not exceed the bounds necessary to ensure the safety of the conquerors. Unfortunately war is war. It is meeting in contact of two bodies of men exasperated against each other, alike convinced that victory can only be gained by the destruction of the opponent. Under such circumstances it is impossible to give quarter...beyond the deaths he inflicted in fair fight, the British soldier perpetrated no unnecessary slaughter... [pp 405-06].

Nationalist historians tend to take a somewhat more lingering and bitter look at what appeared to have been, from most accounts, a somewhat more bloody affair than Malleon's 'fair fight' would have it. Thus R C Majumdar, whose history is, in

they were against the same enemy at the same historical moment, they shared, thanks to the logic of insurrection, some common characteristics' (p 174). And wherein lies the source of this commonality? It lies in "their perception and day-to-day experience of the alien state in his [the rebel] immediate surroundings..." (p 175). And what, finally, is their historical importance? That they "asserted themselves through the act of insurgency and took the initiative denied to them by the dominant classes; and in doing so they put their stamp on the course of the rebellion, thereby breaking the long silence imposed on them politically and culturally by the ruling classes" (p 174). Bhadra fails to ask how landlords and proprietors like Devi Singh and Shah Mal, had they succeeded, would have dealt with Gonoo's interests after the conclusion of the war.

If a socialist sensibility, as the Genoveses correctly observe, does not in itself guarantee a break from the hegemony of elitist historical practices, neither, it seems, does a confused and romantic espousal of the 'people's history' as a history of heroic resistance by the oppressed, regardless of their political and material interests. Thus the only difference between the nationalist V D Savarkar's *The Indian War of Independence, 1857*, (1909) and Bhadra's 'Four Rebels' is that, instead of the well known figures of Nana Saheb, Tantia Tope, and Rani Jhansi, we have those of 'ordinary people' like Shah Mal and Gonoo who, in terms of class, have little in common, but who, as 'subalterns', presumably share a common 'mentality' derived from an 'autonomous culture'.

Subaltern social history, in the final analysis, suffers from the same kind of 'politically anesthetised idealism' that the Genoveses note in the account of liberal history of slavery in the old south which, in its celebration of black cultural achievement in slavery, "abstracts the slave experience almost completely from its political conditions of incipient violence and from that work experience which consumed so many of the slaves' waking hours..."; and, in doing so "denies the decisive importance of the master-slave dialectic—of the specificity and historically ubiquitous form of class struggle" [Elizabeth Fox-Genovese and Eugene D Genovese, 'Political Crisis of Social History', pp 196-97]. This retreat from class struggle makes every act of rebellion by the politically and socially disenfranchised in a particular historical context evidence of one aspect of subaltern 'mentality': defiance. And it locates the failure of this enterprise in the other aspect of the same 'mentality': the contradictory impulse of obedience to authority. What

seems to have little or no place in this historiography is the institutions and structures of power and economic exploitation which, in their very real and bloody exchanges with passive or insurgent masses, break bones and spirits equally effectively.

Of what political use is Partha Chatterjee's assertion that it would be totally contrary to the subaltern historians' project "to go about as though only the dominant culture has life in history and subaltern consciousness eternally frozen in its structure of negation" ['Caste and Subaltern Consciousness', *Subaltern Studies VI*, 1989, pp 206-07] when the only comfort he offers us in his own specific project—the lessons of the failure of the religious movement of Balaram Hadi in the 1830s among the outcaste Hadis of Bengal—is of the presence in Balaram's deviations from brahmanical orthodoxy of "an implicit, barely stated search for a recognition whose signs lie not outside, but within oneself"? ['Caste and Subaltern Consciousness', p 206]. And what political significance can we possibly find in Sumit Sarkar's excruciatingly detailed analysis of the Kalki-Avatar's case, that for one night, the Chandal (outcaste) Prasanna had not only "burst into and taken over a re-enactment of the myth by a brahmin sadhu and a bhadralok [gentleman] disciple, he had appropriated bits of it, along with fragments from epics equally deferential in intent, to terrorise the Doyhata bhadralok and make a wife kick a husband on the forehead" [The Kalki-Avatar Bikrampur', *Subaltern Studies VI*, 1989, pp 52-53].

It is not enough for subaltern historians to prove, by recounting 'people's revolts', that the oppressed have never liked being oppressed, or to show that, when they did not, their deviations from the rituals and symbols of the dominant culture contain-

ed seeds of 'incipient' revolt. The primary question, as the Genoveses insist, is, to what extent did these revolts and deviations pose a challenge to the ruling class? The struggle of the powerless, if it is to have any political significance, must be a struggle for changing the structures which reproduce relations of power. This requires a clear-sighted and rigorous scrutiny by the rebellious forces and their well-wishers alike of the strengths and weaknesses of their struggle. The powerless cannot, just by virtue of their indubitably heroic struggles, become subjects of uncritical admiration, nor can their cultural achievements, because they are the achievements of the oppressed, be idealised without noting their inadequacies. The Genoveses observations on Marx in this regard are to the point.

Marx, concerned with political goals, never mistook socialist demands for proletarian power for a celebration of previous working-class patterns of life. He could not afford to: as a great revolutionary—committed to changing the world and raising the working class to power, one of his major projects had to be precisely a ruthless criticism of all popular movements and classes, especially the working class, in order to help steel it for battle. Hence, he had to view any attempt to cover the blemishes or exaggerate the virtue not only as romantic nonsense but as counter-revolutionary politics [Elizabeth Fox-Genovese, Eugene Genovese, 'The Political Crisis of Social History' in *The Fruits of Merchant Capital*, p 203].

The subaltern historian, as a historian of the 'politics of the people', would do better justice to this politics, it seems, if he/she were to keep Marx's purpose in mind.

[Thanks to my son Vivek Chibber, who helped me articulate what I intuitively saw, but lacked words to express.]

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Aspects of Structural Adjustment in West Africa and South-East Asia

Sumit Roy

Structural adjustment programmes in the 1980s and early 1990s have focused on using trade, fiscal and monetary policies to restore balance of payments equilibrium and stimulate growth in developing countries. These have taken shape against a background of global recession and severe external debts which started emerging over 1979-81. The policies have been underpinned by a shift in emphasis from state to market forces in organising economic activity. The agricultural sector has been expected to play a major role in this process, in order to boost output and foreign exchange.

This paper explores aspects of structural adjustment in Nigeria, a major west African country, and the newly industrialising countries of south-east Asia, and the implications for development. The paper is divided into four sections. Section I outlines the background of structural adjustment and development. Section II looks at the impact of structural adjustment on growth and equity in Nigerian agriculture. Section III examines the factors which enabled the newly industrialised countries of south-east Asia to minimise the impact of the global recession, and hence the need for adjustment programmes. Section IV discusses the key insights for development which emerge from the analysis.

I

Structural Adjustment and Development

THIS section forms a brief background to the analysis of adjustment in west Africa and south-east Asia. Development is a complex process based on the use of a range of strategies to accomplish specific goals. Growth, self-sufficiency and the removal of poverty have been major ones, with the adoption of inward and/or outward looking strategies, based on varying levels of emphasis on the rural and the industrial sector. The state and/or market may be used in different ways to formulate and implement development policies. The nature of the state in developing countries is of critical importance in moulding the latter.

In this context, the process of development may be enhanced or thwarted by changes in the global economy. The latter was buoyant during the 1950s and 1960s. However, from the late 70s onwards the conditions have been much less favourable. This was marked by the emergence of a recession from the late 70s, which adversely affected many developing countries, leading to severe indebtedness and the rise of adjustment policies to establish equilibrium in the balance of payments.

'Adjustment' has been conceived in terms of reducing a country's balance of payments deficit, by curbing domestic demand and stimulating exports. The aim is to curtail domestic output to reduce demand for imported raw materials and investment goods. This in turn can, by reducing incomes, slow down demand for consumer goods. Slashing government spending, coupled with increases in taxation and controls over the supply of credit to investing bodies and consumers are usually prescribed to reduce economic activity [Hood 1987].

Devaluation is also strongly recommended as a means of boosting exports and encouraging domestic production of goods to replace imports, which are made more expensive. This is considered to encourage adoption of domestically produced alternatives. A mix of devaluation and expenditure cuts form the basis for correcting the imbalance in international payments while maintaining full employment of resources [Hood 1987].

This 'model' constitutes the thrust of adjustment programmes propagated by the IMF and the World Bank, and supported by international creditors. The underlying foundation is based on market-based forces, with pricing as the mechanism for allocating resources. This is accompanied by a dismantling of state interventions. Thus, adjustment has far-reaching ideological implications in moulding development policies.

Another method of analysing adjustment is by placing it within a broader context, centred on transforming the economy rather than simply establishing balance of payments equilibrium. Thus, the "essence of development is structural adjustment: from country to town, from agriculture to industry, from production for household consumption to production for markets, from largely domestic trade to a higher ratio of foreign trade" [Streeten 1987:1469-70].

II

Structural Adjustment, Pricing and Agriculture in West Africa: Nigerian Experience

The focus of this paper is on the impact of structural adjustment policies (1986-88) on Nigerian agriculture, in terms of stimulating cash and food crop cultivation, and the implications for growth and equity. This is placed in the context of pre-SAP conditions in agriculture. The analysis suggests that

while in the short-run cash crop exports may benefit, where markets prevail in the pre-SAP period, the food sector may be unaffected. Moreover, SAP may intensify inequality between regions and classes of farmers. The experience demands a more critical analysis of the role of markets alone in boosting agricultural production, and in this light the urgency of re-examining the role of the state.

AUSTERITY, SAP AND AGRICULTURE

SAP in Nigeria was the culmination of austerity measures which started emerging from 1982 (April) onwards in order to control the decline of the economy.¹ This stemmed from a fall in the price of oil, Nigeria's major export, leading to deficits in the balance of payments, rising external debts and debt servicing. Nigeria's debt service ratio was 17.9 per cent in 1986. By October 1990 Nigeria's external debt was \$ 31.5 billion; debt servicing as a percentage of exports of goods and services was 21.3 in 1989. The failure of the government to overcome economic problems was mirrored in domestic political disruption. A military coup ousted the civilian government of Shugu Shagari (1979-83), followed by periods of military rule under General Buhari (December 1983-August 1985) and subsequently General Babangida. The military regimes introduced a number of measures to control the economy. Buhari drastically cut government expenditure through massive retrenchment of public service employees to reduce the wage bill, removed state subsidies on health and education, re-introduced school and hospital fees and a wage freeze. Repayment of external debts became a major focus behind domestic deflationary policies. These were unpopular and Buhari's removal in a coup brought in Babangida.

But he continued many of Buhari's basic policies. Despite not taking a formal IMF loan, to appease public opinion, Nigeria's policies fulfilled many of the key conditionalities which accompany such loans. However, devaluation of the currency was firmly resisted.

The Nigerian state, therefore, had put into effect many IMF type policies before embarking on a formal structural adjustment programme. This was embodied in the World Bank initiated structural adjustment programme (July 1986-June 1988). It aimed to restructure and diversify the economy and minimise dependence on the oil sector and on imports. The basis for a "sustainable non-inflationary or minimal inflationary growth" was laid down. Devaluation of the naira marked a major change of policy. The core measures centred on (a) correction of overvaluation of the naira, (b) overcoming public sector inefficiencies, and (c) relieving the debt burden and attracting foreign capital.

In the agricultural sector the major aims of SAP were based on the central belief that fiscal, trade and exchange rate policies had distorted prices in the economy, leading to poor performance of the agricultural sector. Revamping of the latter centred on increasing (a) food production to improve nutritional standards and eliminating food imports, (b) domestic supply of raw materials (e.g. cotton, cocoa, oil palm, sorghum, rubber, sugarcane and maize) to the manufacturing sector, reducing dependence on imported raw materials, (c) production of exportable cash crops through diversification of the export base of the economy, and (d) raising employment and increasing income. The main instruments for bringing this about centred on winding up of Commodity Boards, coupled with adoption of appropriate exchange rate policy under which all non-oil export transactions were to take place at the free second-tier foreign exchange market. These were to provide incentives to enable farmers to compete effectively both in the product and the factor markets including that of labour [Federal Government of Nigeria, No Date: 18].

SAP AND AGRICULTURAL PRODUCTION

The focus of SAP in the agricultural sector was to stimulate production of food and cash crops, for domestic and export markets, by withdrawing state intervention and allowing market forces to take over. This can be grasped more fully by comparing pricing and agricultural production before and after SAP.

The role of the pricing mechanism in stimulating production has to be related to the pattern of cropping in the regions of Nigeria, the competition or complementarity between food and cash/export crops, and the presence or absence of markets for outputs.

Taking first the key crops in Nigeria, both food and cash crops need to be defined. Crops can be grown either for self-consumption or for sale, or both; food crops can be grown for both self-consumption as well as for sale, for domestic or export markets, and hence as cash crops. But the term cash crops is also used to refer to export crops, including cocoa, groundnuts, cotton and rubber. Peasants cultivate a variety of crops, for self-consumption and sale. In this respect, the pattern of cropping in Nigeria is based on two major types of farming systems: first, the root-crop-based ones in the south and second, the grain-based ones in the north. A movement towards the north leads to an intermediate system, in the form of the mixed crop zones of the middle belt where the climate enables the cultivation of both root and grain crops. The two major systems are labour intensive but they differ in the types of crop and crop mixes.

In this context, the state's role in the marketing of crops and the extent to which the pricing mechanism was allowed to function, can be analysed.

Marketing boards in Nigeria have been extensively criticised for being inefficient. A dual marketing and primary system existed in the pre-SAP era. State marketing boards were responsible for the marketing and pricing of export crops. Food and other domestic crops were left to private marketing and trading. There was limited state intervention [Ghai and Smith 1987: 114]. The first marketing board was set up in 1948. Subsequently, marketing boards for export commodities including cocoa, palm oil, palm kernels, groundnuts and cotton emerged. The commodity marketing boards were converted in 1955 into regional marketing institutions with responsibility for marketing all export crops within a particular region. At independence in 1960, Nigeria was established as a major exporter in the world market for cocoa, groundnuts and oil palm products. Legislation vested monopoly export rights in centralised marketing organs. This was motivated by the desire to protect producer interests. These institutions became agents of state control through which surplus could be extracted. But pricing policy objectives were dominated by aims of raising taxes rather than stabilizing producer incomes. The revenues from export produce accounted for a significant proportion of central and regional financial resources and the basis of growth until the late 60s, when oil income emerged as the major source of revenue [Muhtar 1987: 42]. In 1974 the federal government assumed responsibility from the regional authorities to fix producer prices. The regional marketing boards were dissolved in 1977 and were replaced by commodity marketing boards.

The marketing boards formed the major vehicles for accumulation of surpluses from commodity sales. This policy was phased

out in the 1970s when the sales and export taxes levied on these products were abolished. In this respect, while in the 1960s the producer prices were below the world prices, at the official exchange rate, the situation was reversed for most products in the late 1970s and early 80s.

The role of pricing for cash (primarily export crops) in the pre-SAP era can be divided into two periods: the pre- (before 1973) and post-oil phases (after 1973). Basically, during 1964-73 export crop producers received about half the world market price. The effective deduction rates for the main crops ranged from 20 per cent for groundnuts to 42 per cent for cocoa between 1947-70. The overvaluation of the local currency in the 1960s also exerted a downward pressure on producer prices [Ghai and Smith 1987: 117]. However, over 1974-77, in the post-oil era, export crop producers received between 70-80 per cent of the prevailing world market price. This did not apply to cocoa whose price ratio did not change. Over 1978-83, price ratios increased by about 80-127 per cent. The lowest increases were cocoa and palm kernels; these were commodities which continued to be bought by the marketing boards and exported [Muhtar 1987: 44]. Commodities which had a sizeable domestic market fetched prices in the local markets which exceeded marketing board producer prices: for instance groundnuts and palm oil [Muhtar 1987: 46]. Real producer prices over 1975/76-79/80 were 31-44 per cent lower than nominal producer prices for the major cash crops: cocoa, palm kernel, palm oil, rubber and groundnuts. Lack of adequate price incentives is likely to have played an important role in dampening production of cash crops for export.

Food crops, however, were not subjected to regulations by state marketing boards until 1977. The two boards created in 1977 played a limited role in procuring food from peasants. The supporting prices established by the boards were ineffectual; the majority of food products continued to be traded through private channels and at prices determined by market forces. However, the marketing boards have influenced food prices through the sale of imported food. The prices set by the Nigerian Grains Board have been well below the current market prices [Williams 1988: 60].

Import substitution and food imports were relatively insignificant in the 1950s and 1960s and so the consumer and producer food prices were basically a product of market forces. In the context of limited state marketing operations on food crops real producer prices for most food crops increased in the 1970s. The relationship between prices and food production, in the pre-SAP era, suggests that relative food prices rose during the oil boom while relative food production declined. This suggests

that peasants were unable to respond to price incentives. The underlying explanation for this paradox is centred on the level of expenditure towards the agricultural sector coupled with the nature of allocation towards development projects, e.g. health, education, etc.

The impact of SAP has to be juxtaposed against the pre-SAP situation, taking into account the patterns of cultivation of cash and cash crops, the level of prices and production.

The focus on market forces was mirrored in the formal abolition of all the six marketing boards on February 1, 1987. These were seen as being detrimental to stimulating production.

Taking first cash crops for exports, it is clear that the peasants did not receive remunerative prices in the pre-SAP period. Devaluation of the naira set out to rectify this trend and hence stimulate production. However, as discussed earlier, if devaluation is followed by an increase in the rate of inflation, any positive effects of devaluation can be eroded.

In the post-SAP period the all commodities price computed in US dollars shows an increase of 14.7 per cent, mainly as a product of favourable developments in rubber, vegetable oils and oil seeds markets. Indices of cocoa, coffee and ginger on the other hand declined by 7.6, 23.0 and 10.0 per cent respectively. In naira terms the prices of all commodities show substantial improvements over their respective levels in 1986 due primarily to the sharp depreciation in the value of the naira. At 833.1 (1975=100) the all commodities price index in naira increased by 168.8 per cent in 1987 over the level in 1986. Indices for cocoa, copra, cotton, ginger, palm kernel and soyabeans showed increases of 119.3, 302.6, 253.7, 22.6, 190.0 and 175.5 per cent respectively [Annual Report 1987:17].

After the sharp depreciation of the exchange value of the naira, there were marked increases in the farmgate prices of all exportable agricultural commodities during the 1986-87 buying season, compared with the corresponding prices for 1985-86 buying season. In some cases, they even exceeded the officially recommended prices for 1986-87 crop season. Prices of cocoa, cotton and groundnuts, for example, rose sharply by more than 100 per cent over the official recommended prices for 1986-87. In terms of real producer prices too it is clear that there was a significant increase in the prices received by peasants. Thus, in 1986-87, compared to 1985-86, real producer prices rose by over 300 per cent for cocoa, 200 per cent for cotton and just under 200 per cent for groundnuts; the rise for palm oil and palm kernel was less than 100 per cent while it was about 18 per cent for rubber.² Some cocoa was purchased for as much as naira 4,000 per ton during the 1986-87 sea-

son, compared with the official price of naira 1,600 per ton in 1985-86 [EIU 1981-90:20].

Increasing prices for the cash crops was a major incentive for boosting production. It is somewhat difficult to disentangle the effects of weather from other effects, including price, on output. Thus, adverse weather is likely to have been a major factor behind an overall decline in agricultural production during 1987. The volume index of agricultural output fell by about 1.8 per cent in 1987 compared with an increase of 6.6 per cent in 1986 [Central Bank of Nigeria 1987:14]. The output of cash crops, however, increased by 2.2 per cent in 1987 in comparison with 3.3 per cent in 1986. Cocoa, cotton seed and groundnut recorded increases in output of 5 per cent, 6.7 per cent and 2.7 per cent respectively in 1987 over 1986 [Central Bank of Nigeria 1987].

Increasing producer price incentives through devaluation has, however, tended to cast aside the implications for increasing the costs of imported farm inputs such as fertilisers. This could pose a critical problem for small peasants with limited resources. The sharp cut in subsidies for the latter need to be taken into account in any calculations of farm profitability [World Bank 1988:31]. Moreover, exports of agricultural commodities are subject to the vagaries of the world market. For instance, the 1989-90 Economist Intelligence Unit Country Profile reported that in the previous quarter world prices of cocoa had fallen to a 14-year-old low [EIU 1989-90:17]. The implications of any external changes need therefore to be taken into account in any adjustment programmes. Although SAP eliminated some of the pre-SAP price distortions associated with oil induced transformations, excessive focus on correcting price structures and reforming markets has led to a neglect of essential transformation in infrastructure and institutions. This demands broader research and policies towards 'non-market' issues. These embrace physical and institutional structures coupled with development and spread of appropriate technologies [Muhtar 1987].

Food crops (including the major staples) were as mentioned earlier, subjected to market forces in the pre-SAP era. The Grains Marketing Board played a limited role in the procurement of food crops. It offered prices for staples which were sufficient to cover even farmgate prices [World Bank 1985:33]. In spite of an increase in relative prices in the oil boom era, as explained earlier, they failed to increase production.

The immediate impact of devaluation under SAP was expected to be limited, as food stocks were good when the SIFEM opened. Although food prices were said to have risen sharply from mid-1987 to mid-1988, this was mainly a result of a weather

related fall in output [World Bank 1988:39]. Food crops (including the major staples) were as mentioned earlier, subjected to market forces in the pre-SAP era.

There was a large supply response in 1985 and 1986, with a rise in the output of staples [Central Bank of Nigeria 1987; World Bank 1988:31]. But this did not emanate from an increase in prices, but primarily from favourable weather conditions [World Bank 1988:31-32]. Average urban retail prices actually fell sharply in 1986 compared to 1985 for most of the staples including guineacorn, millet, maize and cassava: they fell by 30.5 per cent for millet, 24.1 per cent for guineacorn and 10.2 per cent for maize in 1986 compared to 1985. The price levels rose for only groundnuts, rice and yam [World Bank 1988:20]. It can also be assumed that the nominal producer prices the peasants received would be considerably lower than the marketing margins of private traders. The World Bank suggests that "farmgate prices fell below the levels recorded over the previous three years" [World Bank, 1988:32].

Adverse weather conditions coupled with high incidence of pests and diseases brought about a fall in output in 1987 [Central Bank of Nigeria 1987:14]. Output of staple food crops fell by about 8.8 per cent compared to an increase of 10.9 per cent in the preceding year [Central Bank of Nigeria 1987:14]. This should have led to an increase in 1987 in urban market retail prices of the key staples. The impact, however, on urban market retail prices varied, showing mixed

TABLE 1: GNP PER CAPITA AND AVERAGE ANNUAL GROWTH RATE

	GNP Per Capita (Dollars)	Average Annual Growth Rate (Per Cent)
	1987	1965-87
Low income countries		
Sri Lanka	400	3.0
Indonesia	450	4.5
Pakistan	350	2.5
India	300	1.8
Bangladesh	160	0.3
Middle income countries		
Malaysia	1,810	4.1
Philippines	590	1.7
Thailand	850	3.9
Republic of Korea	2,690	6.4
High income countries		
Hong Kong	8,070	6.2
Singapore	7,940	7.2

Source: *World Development Report 1989*, published for the World Bank, Oxford University Press.

trends during the year. The prices of maize and guineacorn fell by 6.3 per cent and 3.1 per cent; the prices of cassava, rice (paddy) and millet rose by 79.7 per cent, 19.8 per cent and 3.3 per cent. The upward trend in food prices was marked during the last quarter of 1987, when fears of poor harvests due to the adverse weather conditions fuelled speculation on food scarcity during the period [Central Bank of Nigeria 1987:19].

A major factor behind the fall in output was the 'adjustment-related supply shifts into cash crops' which brought about a decline in output levels of foodgrains and roots during 1987 [World Bank 1988:32]. This poses a key question about the extent to which SAP induces competition between food and cash crops, encouraging the cultivation of the latter at the expense of the former. The objective of substituting domestic raw materials for imports, was explicitly stated in the SAP programme. Thus, some food processors have started shifting to locally grown grains as raw materials [World Bank 1988:32]. Cotton and groundnuts also offer the scope for import substitution. Cotton is an alternative crop to grains in the northern regions. Lint and seed cotton prices, as mentioned earlier, increased by 40-50 per cent in the wake of the exchange rate change after devaluation, as the price of lint before devaluation was double the border price. The price increase encouraged peasants to expand cotton production. This emerged as a result of a shift from the cultivation of maize and other grains, the prices of which were weakening in 1985 and 1986 [World Bank 1988:31].

Profitability of farming food crops after SAP was affected by rising input costs. Thus, "following the introduction of SFEM [which led to devaluation of the naira] food producers initially faced increased input costs without commensurate increases in output prices" [World Bank 1988:39].

SAP AND EQUITY

Stimulating agricultural production through SAP has critical implications for equity, embracing employment, income and basic needs. This has to be placed in the context of the 'rural-urban' gap, which professes that policies have favoured the urban sector at the expense of the rural.

SAP may have reduced the 'rural-urban gap' but this needs to be related to rising unemployment and falling incomes in both sectors, but particularly in the urban sector.

In the short run, the increase in prices, following SAP, is likely to have benefited regions and peasants cultivating cash crops, particularly for the export markets. The gains made by different groups of peasants have to be related to the inequality of land. This indicates a relatively less equal distribution of land among peasants cultivating

export crops compared to those cultivating food crops. Recent findings, however, indicate that the extent of inequality is closer to that among the export crop peasants [Collier 1989:206]. Those who farmed cocoa, a major export crop, were "peasants vis-a-vis merchants and the state". They controlled the share of export proceeds received by growers and the terms on which farmers could gain credit [Berry 1987:213]. In the grain producing areas, commercialisation of agriculture started emerging from the mid-70s. Maize has become a major commercial crop, revealing that food production for the domestic market has been emerging as a major source of accumulation and sharpening differences between groups of peasants. They were unequally placed in taking advantage of this process [Beckman 1987]. The extent of landlessness has critical implications for the levels of unemployment in the rural areas. But landlessness has not been a major problem in Nigeria, with between 21 million and 29 million acres out of

84 million acres being cultivated. However, some studies suggest that wage labour is increasing in importance in northern Nigeria [Collier 1989:194].

SAP's impact on employment and income in the rural areas cannot be divorced from the national and the 'rural-urban' context. The level of employment in the rural sector may have increased to some extent but real wages of rural households, including the self-employed and wage earners, fell after SAP was initiated. It is important, however, to recognise that these tendencies could be identified from 1982-83 onwards. This marked a collapse of the oil boom and the rise of austerity measures. The impact of increased prices for cash crops would seem to have been drowned by the overall fall in rural incomes.

Unemployment in the economy shows marked changes from 1981 onwards, following the demise of the oil boom. The 'austerity' measures, as discussed earlier, led to a sharp reduction in state expenditure,

TABLE 2 (a): ANNUAL AVERAGE GROWTH RATES OF TOTAL REAL DOMESTIC PRODUCT, 1970-80-1980-87, AT MARKET PRICES

(Per cent)				
Country	1970-80	1970-75	1975-80	1980-87
Indonesia	7.8	8.5	7.8	4.2
Malaysia	7.9	7.9	8.4	4.5
Philippines	6.4	6.2	6.2	-0.5
Thailand	7.2	6.4	7.7	5.6
India	3.6	2.5	3.5	5.0
Pakistan	4.9	3.9	5.9	6.8
Sri Lanka	4.8	4.2	5.6	4.7
Hong Kong	9.2	7.2	11.9	6.8
Republic of Korea	9.1	9.1	8.3	8.6
Singapore	8.5	9.8	8.7	5.4

Source: UNCTAD, *Handbook of International Trade and Development Statistics*, United Nations, New York, 1989, p 434.

Note : Growth rates of real product are generally based on data on gross domestic product (GDP) at constant prices (without any adjustment being made for changes in the terms of trade). The weights used in the aggregate figures are base year weights, at 1980 prices. Based on UNCTAD.

TABLE 2(b): ANNUAL AVERAGE GROWTH RATES OF TOTAL REAL DOMESTIC PRODUCT AT MARKET PRICES

(Per cent)							
	1980-81	1981-82	1982-83	1983-84	1984-85	1985-86	1986-87
Indonesia	7.9	2.2	4.2	6.1	2.4	4.1	3.6
Malaysia	6.9	6.0	6.4	7.9	-1.1	1.3	5.5
Philippines	3.8	2.9	1.1	-6.3	-4.5	1.5	5.3
Thailand	6.3	4.0	7.2	7.1	3.5	4.6	6.8
India	6.6	4.0	7.7	3.3	6.1	4.4	2.5
Pakistan	7.0	6.2	6.7	5.6	8.2	7.8	5.4
Sri Lanka	5.8	5.1	5.0	5.1	5.0	4.3	1.5
Hong Kong	9.4	3.0	6.5	9.5	-0.1	11.2	13.6
Republic of Korea	7.4	5.7	10.9	8.6	5.4	11.7	11.1
Singapore	9.6	6.9	8.2	8.3	-1.6	1.7	8.8

Source: UNCTAD, *Handbook of International Trade and Development Statistics*, United Nations, New York, 1989, p 434.

Note : Growth rates of real product are generally based on data on gross domestic product (GDP) at constant prices (without any adjustment being made for changes in the terms of trade). The weights used in the aggregate figures are base year weights, at 1980 prices. Based on UNCTAD.

with sharp cuts in the labour force. The recession in the economy forced cuts and retrenchment. The national unemployment rate rose sharply over June 1985 to December 1987, with the urban sector facing relatively higher levels compared to the rural sector. The figures are national averages and therefore conceal inter-regional variations in rural unemployment.³

The return of retrenched workers from the urban to the rural sector to take up cultivation seems valid in the light of relatively higher levels of unemployment in the urban sector. Increased production of cash crops, following SAP, could contribute towards a 'pull effect'. However, it is difficult to measure its quantitative strength, coupled with uncertainties about the global market conditions and the stability of maintaining high prices.

The reduction under SAP of the 'rural-urban gap' has to be seen in relation to falling income in both sectors. In the pre-SAP period, the use of state resources reveals an anti-urban poor and anti-rural bias focusing on a small urban elite. The low priority to basic needs in the pre-SAP oil boom era, because of the skewed pattern of expenditure, suggests that further reductions in expenditure are likely to exacerbate problems of access to such services.

Even before SAP, the austerity measures led to a fall in minimum wages by 47 per cent between 1981-85. The real household income in the rural and urban sectors fell drastically, while the differential between the two sectors started to shrink. This group enjoyed a much higher standard of living, compared with their rural counterparts, during the oil boom. In the rural sector there was a drastic fall in real household income between 1980-81 to 1986-87.⁴

Following SAP, the capacity of the rural and urban poor to acquire the minimum 'poverty basket'⁵ has been reduced. Malnutrition, too, has deteriorated. This is illustrated by studies after SAP among children in northern Nigeria: reduction in food consumption and nutrition of pre-school children from low income families [Igbedin 1990:522].

CONCLUSION

The Nigerian experience reinforces the urgency of examining more carefully the scope of restructuring the agricultural sector in Africa through SAP. In the short run, SAP can increase the prices of cash crops for export and stimulate production. But the continued support of the state, such as through provision of infrastructure, has to be recognised. In the case of food crops, the impact of SAP may not be significant, if markets exist prior to such policies. Indeed, there may be no clear relationship between prices and outputs, which suggests that it is

necessary to investigate the extent to which other factors, including technology, infrastructure and the agrarian structure, may inhibit production.⁷ In terms of equity, regional biases in cultivation of food and cash crops, and differentiation among the peasants, are likely to skew any benefits of increased prices and production towards particular regions and classes of farmers. Inter-regional and inter-peasant income inequalities may be sharpened. Against a background of curbs in overall state expenditure under SAP, the economy is likely to confront increasing unemployment, although the 'rural-urban' gap may be reduced, as a product of a worsening of the conditions of the urban population. Falling real incomes, in both the rural and in particular the urban sector, is likely to intensify the ability of the poor in both sectors to fulfil basic needs. Such changes need to be placed in the setting of the changing global economy.⁸

III

Recession and Structural Adjustment in South-East Asia

While developing countries in Africa and Latin America have confronted indebtedness, most of the Asian countries have been able to minimise the adverse consequences of global recession, and hence the adoption of formal structural adjustment programmes supported by external financial and aid agencies. The aim of this paper is to outline the extent to which this has been a product of the economic structure of the Asian countries,⁹ with the focus on the newly industrialising countries of south-east Asia.¹⁰

The development path pursued by the Asian economies has been considered to be a model for emulation by developing countries. In this context, the factors which enabled them to minimise the need for the 'standard' adjustment policies need to be analysed within the frame of a typology which can take into account the relationship between the domestic and the global economy. The role of the key sectors (e.g. agriculture, mining, industry) and the nature of dependency on trade are established, to ascertain the vulnerability of the economy to external changes. The importance of external debts and its implications for exports and government revenues are identified.

Taking first the domestic structure of the economy, it is important to establish the contributions of the key sectors, to gross domestic product. The role of agriculture in particular is of paramount importance, including the type of output, which can be divided into cash and food crops, for subsistence and market production. The agrarian structure is underlined by the pattern of land distribution, landlessness, wage and non-wage labour and opportunities for non-farm employment. The contribution of manufac-

turing and related activities may be limited, but in a dynamic context the agricultural sector may be transformed, with changes in the relationship between the rural and the urban sectors, migration and industrialisation.

Secondly, the relationship between the domestic and the global economy is circumscribed by the extent and nature of dependence on trade. In this respect, the structure of exports and its contribution to GNP is of paramount importance, with a need to distinguish between agricultural and manufac-

TABLE 3: AGRICULTURE AND LABOUR FORCE (Per cent)

	Contribution of Agriculture to GDP		Labour Force in Agriculture 1980
	1965	1987	
Low income countries			
Sri Lanka	28	27	53.4
Indonesia	56	26	57.2
Pakistan	40	23	52.0
India	47	30	69.7
Bangladesh	na	47	74.8
Middle income countries ¹			
Malaysia	na	na	41.6
Philippines	26	24	51.8
Thailand	32	16	70.9
Republic of Korea	38	11	36.4
High income countries			
Hong Kong	2	0	2.1
Singapore	3	1	1.6

Source: Based on *World Tables, 1988-89* edition. From data of the World Bank, published for the World Bank, the John Hopkins University Press, Baltimore and London.

TABLE 4: EXPORTS AND IMPORTS AS PER CENT OF GDP, 1987

Country	Exports as Per Cent of GDP	Imports as Per Cent of GDP
Low income countries		
Sri Lanka	23.06	34.5
Indonesia	24.6	20.7
Pakistan	13.18	18.3
India	5.68	8.5
Bangladesh	6.10	14.8
Middle income countries		
Malaysia	57.2	40.0
Philippines	16.33	20.6
Thailand	24.18	26.8
Republic of Korea	38.88	33.7
High income countries		
Hong Kong	132.69	132.6
Singapore	143.6	163.2



57th Annual General Meeting

at the Birla Matushri Sabhagar,
19, Sir Vithaldas Thackersey Marg,
Bombay-400 020, on Wednesday,
September 22, 1993, at 3.45 p.m.

Statement of the Chairman, Mr. Nani A. Palkhivala

Globalization, democratization, and liberalization will be counted as the three great powerhouses of change in our times. In the words of Chris Patten, the Governor of Hong Kong, "On every continent, in nearly every land, hope is turning on the lights."

Never before in world history have the economies of different countries attempted to come together to commence the concept of the global village. The twilight of communism has compelled even a diehard like Castro to concede that democratic reforms would eventually have to come to Cuba. Three-fourths of the 47 countries south of the Sahara are in various stages of a democratic surge. Liberalization is to the 90's what socialism was to the 40's. Socialism is as outdated as the dinosaur. We now have insignificant ideologies; and our commanding heights have been reduced to mole-hills.

Without whole-hearted public support for Dr. Manmohan Singh's liberalization policies, we shall only bear out the recent comment of *The Economist* (July 31, 1993) that India is "Asia's big laggard". Such unthinking demonstrations as were staged against the New Economic Policy on August 19 and 20, merely give point to Dr. Einstein's observation that to many people the Creator gave brains by mistake — the spinel cord would have been amply sufficient!

Unfortunately, while the world is celebrating the 2500th anniversary of the birth of democracy, the grim crisis facing the free world is the lacklustre leadership. Politicians have been reduced to mere mortals.

When did so many heads of state have so little public backing and evoke so little public respect? Instead of outstanding leadership, we have just "holes in the air", to use the expressive phrase of George Orwell. The free world has lost confidence in its politicians. We do not believe in them any more.

Winston Churchill referred to the times of Lord Rosebery as "an age of great men and small events". We are living in an age of small men and great events. Talking about the G-7 Summit, a shrewd political analyst observed, "What we have in Tokyo is a meeting of the world's strongest countries but the world's weakest leaders."

India partakes of this world trend. Mistrust of government as an institution broods over the nation. Very few people are aware that for months our Union Cabinet has functioned without a Commerce Minister, or a Defence Minister, or a Law Minister, or a Foreign Minister in normal health. Leaders are not missed when there is no leadership worth the name.

The cement industry

The year under review witnessed a decline in the fortunes of the cement industry. Producers suffered on two counts — depressed selling prices and an unprecedented increase in input costs of raw materials and services statutorily under the control of government agencies. The cumulative effect of these adverse factors was a significant erosion in profit margins as compared to earlier years. The situation has worsened in recent months due to communal riots in the wake of the Babri Masjid demolition, followed by the black Friday of March 12 when Bombay reeled under bomb blasts.

The domestic consumption of cement suffered a setback for the first time in ten years since cement was partially decontrolled in 1982. Against a historic growth of over eight per cent per annum since 1982, the overall consumption of cement stagnated at around 50 million tonnes — the same as in 1991-92. There were considerable variations in the consumption behaviour among the various regions in the country. While the southern region recorded a growth in consumption of eight per cent, the northern, eastern and western regions showed a fall of three per cent, 14 per cent and one per cent respectively, as compared to the previous year.

The shortfall in cement consumption has been due to the continuing major recession in most of the core sectors of Indian industry — aggravated by sharp decline in purchase of cement by government agencies due to serious resource constraints.

The Company's working

Your Company achieved capacity utilization of 98 per cent during the year, against the figure of 85 per cent for the industry as a whole. Your Company also achieved the highest ever exports of cement to Bangladesh and Nepal of 1.3 lakh tonnes, as against 0.55 lakh tonnes in 1991-92.

Despite the setback in profitability, the year has been one of consolidation and a renewed emphasis on all-round productivity. Capacity utilization was at a high level of 98 per cent — with Gagai and Madukkarai topping the list at 155 per cent and 120 per cent respectively. In addition, your Company achieved the highest ever production in the following areas: clinkering at Madukkarai, Gagai and Wadi Phase II; cement grinding and despatches at Madukkarai, Wadi and Sindri. Even the four remaining old wet process plants were operating at their peak. This was due, in no small

measure, to the excellent maintenance and upkeep work at the factories.

The completion — in March this year — of the balancing, modernization, and rehabilitation (BMR) programme on the existing kiln at Gagal at a cost of Rs. 35 crore will augment the production capacity of the kiln, and contribute to increase in cement availability from Gagal during the current year. Meanwhile, work on the new million tonne unit also at Gagal at a cost of over Rs. 200 crore, has made considerable progress. The unit will become functional well before March 1994. At Kymore, construction work on the new 1.2 million tonnes-per-year plant, being built at a cost of Rs. 220 crore, is in full swing. The unit is expected to be operational by the second quarter of 1994.

Besides expansion, your Company has undertaken a series of upgradation and modernization programmes. Technological improvements will facilitate higher energy efficiency and improved product quality, in addition to providing for cleaner environment.

Your Company's refractory business is poised for impressive growth in the years ahead. It registered a turnover of Rs. 58 crore — an increase of 53 per cent over the previous year.

Refrathacc, a high strength insulating brick — made in India by ACC, with technology from Refrath Technik of Germany — made a successful debut in the Indian marketplace. Meanwhile, at the Kymore refractory intermediates plant, the production of Brown Tabular Alumina, for the first time in India, has created new opportunities both in the domestic and the export markets. The various new technologies acquired through Indian and foreign collaborations will put the Refractory Business Group in a unique position, offering a large range of new generation, high performance products.

The Refractory Business Group has also introduced a new concept: integrated refractories application services. This includes material recommendation, procurement, design, engineering, installation and start-up services, and also performance guarantees. This has enabled us to secure a number of prestigious turnkey refractory assignments in the cement, fertilizer, and ceramics industries.

The Research and Consultancy Directorate (RCD) continues to maintain its leadership role in varied areas of research and consultancy. Many assignments/projects undertaken by RCD, in energy management and in research and development, have been recognized by professional bodies in the country. Dr. S. Ganguly, our Executive Vice-Chairman and Managing Director was declared "Energy man of the Year" (1992). Dr. A.K. Chatterjee, Director and Chief Executive, RCD, received the "D.N. Agrawal Memorial Award" from the Indian Ceramic Society, and the "MRSI Medal for 1993" from the Materials Research Society of India.

Associated Tyre Machinery Company Ltd. (ATMC) which has collaborations with international firms like Kobe Machinery Company of Japan and Midland Tyre Machinery Company of the UK, has trebled its turnover in the last three years. Apart from its strong presence in the tyre machinery market, it has diversified its product range for the cement machinery, foundry, ceramics industries, etc.

New businesses

We have embarked upon a Rs. 25 crore joint venture project in association with Nihon Cement Co., Japan — ACC-Nihon Castings Ltd. (ANCL). It is scheduled to go on stream later this year, with the production of a range of high quality alloy steel castings. This plant has been set up in a record time of 12 months. Our team has been trained in Japan to ensure that our castings will be made to the highest international standards.

Another new diversification is the soft ferrite plant — a joint venture between ACC and West Bengal Electronic Industry Development Corporation Ltd. (WEBEL). ACC has acquired 51 per cent equity stake in one of the largest soft ferrite manufacturing units, Webel Electro Ceramics Ltd. (WECL), based at Kalyani in West Bengal. The current range of soft ferrites produced by the unit caters to the critical needs of industries like black and white television, telecommunications, power switching equipment, etc. This new venture has got off to a good start with encouraging response from prospective customers in India and also from overseas markets.

Civil work on the synthetic ferric oxide (SFO) project at an estimated cost of Rs. 40 crore — also in West Bengal at Falta — is well under way. The plant, the only one of its kind in India, would be in commercial production by the second quarter of 1994-95. The unit is designed to manufacture 10,000 tonnes per year of electronic grade SFO, with technology collaboration from IROX-NKK, Japan, and International Steel Services Inc., USA. While production will meet the entire domestic requirements, the Falta unit will be a key supplier of high grade SFO required by ACC-WECL. In addition, SFO will also be exported to countries in Europe and Southeast Asia.

Another Indo-Japanese venture is the largest float glass manufacturing unit in India — Floatglass India Ltd. (FGIL). It is located at Taloja in Maharashtra and is scheduled to commence production by the end of 1994-95. This project, in which Asahi Glass Company Ltd., Japan, is the major shareholder, has Telco, Tata Exports, and ACC as co-promoters. Your Company will be actively assisting FGIL in project implementation, operation and marketing activities, since float glass will have wide use in the construction sector in a variety of applications.

Your Company's continuing efforts in providing the latest pollution control technology were underscored in an agreement entered into recently with Research Cottrell Companies Inc., USA, for the creation of an advanced gas dynamics laboratory to provide design basis for air pollution control equipment. Arising out of the agreement, ACC will provide not just gas dynamics engineering services but also offer air pollution control equipment with after sales service. The agreement with Research Cottrell will further strengthen our present expertise in offering consultancy services in environment management.

This is the time of transition to an exciting future, pregnant with the allure of the unknown.

I am confident that under the stewardship of Dr. Subrata Ganguly and his colleagues, your Company will be the leader in the many greenfield ventures on which it has embarked, just as it has been in the cement industry. I take this opportunity to express my appreciation and gratitude to each member of the ACC family for his contribution and dedication to keeping your Company in its pre-eminent position.

Bombay, August 23, 1993

ACC THE ASSOCIATED
CEMENT COMPANIES
LIMITED

*times change,
our values don't*

lured goods. The nature of exports governs sensitivity to changing global conditions; these vary sharply among developing countries, with consequences for government revenues and expenditures. In this respect, the capacity to finance balance of payments deficits and service external debts is intrinsically linked to the nature of exports. This is also influenced by access to aid, and the terms and conditions on which it is supplied by bilateral and multi-lateral agencies. In essence, the more exposed or 'open' the economy, the greater the impact of global changes on the pursuit of development.

The structure of an economy may be transformed over time, as a product of domestic or global changes, with critical implications for growth, self reliance and alleviation of poverty. Above all, the nature of the political economy, influences and is influenced by the structure of the economy.

ASIAN ECONOMIES

The Asian economies are not homogeneous and mirror different structures, which have been undergoing change. Their main features are captured in Tables 1-8. They can be broadly grouped into two types of economies: relatively 'open' and relatively 'closed' economies. It is often assumed that the former are more exposed than the latter to global changes. This, however, depends on the structure of the 'open' economies, which is centred on the nature of exports and the pattern of relationship with the global economy. Similarly, a relatively 'closed' economy by itself does not imply that it is protected from economic disruptions. In both types of economy, the state can play a major role in shaping the structure. The state, in fact, has intervened extensively in South East and East Asian 'open' economies; this contrasts sharply with those who profess that the latter have only favoured 'free market' policies.

In this context, the countries can be divided into the following two groups: First, into two types of relatively 'open' economies: (i) those dependent on agriculture and (ii) those dependent on manufactured goods. Second, into relatively 'closed' economies; these are basically dependent on agriculture, although the larger ones have been developing a thriving industrial sector.

It is recognised that most countries have in practice a combination of 'open' and 'closed' features. However, some are more open, or less closed, than others. The subsequent discussion in this paper places the Asian countries into these two groups, taking into account their domestic structure and the pattern of their trading relationship.¹¹ The countries include low, middle, and high income countries (Table 1). They experienced varying levels of growth (Table 2).

The bulk of the low, and some middle income countries fall into the 'open' or the 'closed' economy group. Agriculture continues to make an important contribution to GDP in both, with labour in this sector constituting a significant proportion of the total labour force. Farm and non-farm employment is critical for these countries, against a background of attempts to stimulate industrialisation, which can absorb migrants from agriculture. Exports, mainly of primary goods, is a major feature of the agriculture based 'open' economies. Some are being transformed from an agricultural to an industrial based economy. The closed group covers economies with a relatively insignificant agricultural sector, with exports, comprised mainly of non-primary goods, accounting for a significant share of GNP. The majority of the countries have not relied heavily on imports of food. The external debts of most have been of a far smaller magnitude, in comparison with Africa and Latin America. However, this varies among the Asian countries, and has to be related to the contribution of agricultural exports to GNP.

The 'open' agricultural economies, under group (a), include Sri Lanka, Philippines, Indonesia, Malaysia and Thailand. Agriculture continues to play a major role. In 1987, the contribution of agriculture to GDP was 27 per cent in Sri Lanka, 24 per cent in Philippines and 26 per cent in Indonesia; the labour force in agriculture accounted for 53.4 per cent, 51.8 per cent and 57.2 per cent in the respective countries. Exports as a per cent of GDP, in 1987, were 23.06 per cent, 24.6 per cent and 16.33 per cent in Sri Lanka, Indonesia and Philippines (Table 3).

The manufacturing based 'open' economies includes Hong Kong, Singapore and Republic of Korea. Agriculture's contribution to GDP in 1987 was nil in Hong Kong, a mere 1 per cent in Singapore and 11 per

cent in Republic of Korea while the contribution of exports to GDP was 132.69 per cent and 38.88 per cent respectively in each (Tables 3 and 4).

Exports were comprised primarily of non-primary goods. Machinery and transport equipment accounted for 70 per cent, 29 per cent and 33 per cent respectively in Hong Kong, Singapore and Republic of Korea (Table 5). The 'closed' economies are exemplified by India, a large economy, and Bangladesh and Pakistan, which are smaller economies. These are based on agriculture, with the labour force in this sector constituting a significant proportion of the population. The contribution, in 1987, of agriculture to GDP was 30 per cent in India, 47 per cent in Bangladesh and 23 per cent in Pakistan. The labour force in agriculture, in the 1980s, constituted 69.7 per cent, 74.8 per cent and 52 per cent respectively (Table 3). Exports, in comparison with the other Asian countries, constituted a relatively lower per cent of GDP: 5.68 per cent in India, 6.10 per cent in Bangladesh and 13.18 per cent in Pakistan (Table 4).

Most of the economies were dependent, in varying degrees, on imports. It was marked in the case of Hong Kong and Singapore. But relatively closed economies were less dependent on imports; this was exemplified by India (Table 4).

Adjustment policies have aimed, as explained earlier, to reduce debts and restore equilibrium in the balance of payments. These have generally been imposed on developing countries, with international financial and developmental agencies playing a key role in formulating domestic policies. But some of the major features of the policies may fall within the realm of 'self imposed' adjustment. First, external debts and debt servicing have not plagued most of the Asian economies.

TABLE 5: EXPORTS BY TYPE OF MERCHANDISE EXPORTS

Country	Per Cent Share of Merchandise Exports				
	Fuels, Minerals and Metals		Other Primary Products		Machinery and Transport Equipment
	1965	1987	1965	1987	
Low income countries					
Sri Lanka	2	8	97	52	2
Indonesia	43	54	53	18	3
Pakistan	2	1	62	32	3
India	10	9	41	22	10
Bangladesh	na	16	na	33	17
Middle income countries					
Malaysia	35	25	59	36	27
Philippines	11	14	84	24	6
Thailand	11	2	84	45	12
Republic of Korea	15	2	25	5	33
High income countries					
Hong Kong	2	2	11	6	70
Singapore	21	17	44	11	29

Source: World Development Report 1989.

Philippines, Sri Lanka and Thailand, and in particular the first, have confronted problems which are closely related to their dependence on agricultural exports and pressures on debt servicing in comparison with other Asian countries. External debts in the Philippines were \$ 29,962 in 1987. In Thailand and Sri Lanka they were \$ 20,710 and \$ 4,733 respectively; long-term debts as a per cent of exports of goods and services in 1987 were 25.7 per cent in the Philippines, 20.6 per cent in Thailand and 20.2 per cent in Sri Lanka (Table 6).

But Thailand's experience should be seen against a background of a rapidly transforming economy, with industry assuming increasing importance. In countries such as Republic of Korea, debt servicing has not been insignificant, but primary exports comprised only 5 per cent of merchandise exports in 1987 (Table 5).

External debts confronted by Asian countries, with significant exports of agricultural outputs, have to be distinguished from those which rely on exports of mineral and manufactured goods. The growth prospects for the different types of exports vary sharply, with repercussions for balance of payments deficits and debt servicing. In a historical context, the terms of trade of developing countries exporting primary goods have been worsening. In contrast, countries like Hong Kong, Singapore and Republic of Korea, have been able to overcome this problem by relying primarily on exports of manufactured goods.

The position of the Asian economies, in relation to their need for external aid, offers important insights. In 1987 aid constituted only a small proportion of GNP, although it was relatively large for Bangladesh and Sri Lanka, in comparison with other Asian countries (Table 7). This contrasts sharply with other developing countries, such as the African ones, where aid usually forms a significant proportion of GNP. This suggests that donors, in conjunction with international financial institutions, like the IMF, command considerable influence over policies in developing countries which have to depend on aid.

Some of the Asian economies have a sizeable agricultural sector, but have been relatively 'closed' with exports making a limited contribution to GNP.¹ But, in the case of 'open' economies, with a sizeable agricultural sector, such as the Philippines, exports have been more important, comprising mainly of primary products, which form a major vehicle for growth. External debts and debt servicing can clearly slow down the latter. The newly industrialising countries, such as Hong Kong and Singapore, are 'open' economies with exports making a significant contribution to GNP. But the exports are comprised primarily of manufactured goods.

The structure of the Asian economies has enabled the majority to minimise need for conventional adjustment policies. But, as mentioned earlier, this should be seen against the background of extensive state intervention to create the conditions for growth. However, they have been subjected to balance of payments problems for particular periods and have used selective adjustment policies. However, these have usually been adopted voluntarily.

STRUCTURAL ADJUSTMENT POLICIES

This section looks at the nature of global recession, the rise of adjustment based policies and their implications for the Asian economies. In the majority, particular forms of self-imposed adjustment, emanating primarily from recession in the global economy, were adopted.

Recession in OECD countries created problems for developing countries in Asia. There was a contraction in the volume of international trade. Both the rate of growth of exports and the terms of trade fell significantly after 1978-79. However, the severity of the latter varied greatly [Lee 1987:102].

In all the Asian countries GDP fell sharply by 1982 below the trend growth rates of the period 1975-79. Exports and imports faced similar declines in growth rates, with absolute declines in many cases. Balance of payment deficits emerged in surplus economies and widened in deficit ones. Servicing costs on external debts increased and public expenditure, including investment under development plans, had to be reduced [Lee 1987:99]. Basically, over 1980-87 most faced relatively lower annual average growth rates of total real domestic product, in comparison with 1970-80 (Table 2).

The response of the Asian countries to external shocks, as well as internal problems, has been relatively quick and effective [ILO 1987:118-30]. A combination of factors, including export market penetration and inflow of remittances from abroad, helped to absorb the impact of oil shocks, stemming from a rise in the price of oil imports. Fiscal and monetary policies, including devaluation and liberalisation, were used as instruments of short-term stabilisation. Debt servicing capacity was strong.

Oil importing countries in East and South-East Asia managed to absorb the oil price shock of 1979 within a few years. Increasing penetration of export markets formed a key thrust. The NICs were able to cope with the recession most comfortably. They confronted the problem of balance of payments through a combination of export market penetration and reduction of imports, relying only to a lesser extent on external borrowings. The South Asian countries resorted to a combination of reduced imports and increased flow of finance and remittances

from abroad [ILO 1987:118-30].

It was primarily the agricultural based economies, and in particular the 'open' ones, including Philippines, Thailand, Sri Lanka, Bangladesh, Malaysia and Indonesia, which had to cope with the brunt of adjustment.

Fiscal and monetary policies were adopted to control the trade balance as in government budgets. Most of the countries, excepting Singapore and Malaysia, undertook major devaluations of their currencies between 1980-83. Liberalisation of import regimes was underway in Sri Lanka since 1977. Fiscal deficits widened in the region. But unlike what took place in other parts of

TABLE 6: TOTAL AND LONG-TERM DEBTS

Country	Total External Debt (Millions of \$) (1987)	Total Long-Term Debt Service as Percentage of GNP (1987)	Exports of Goods and Services (1987)
Low income countries			
Sri Lanka	4,733	5.4	20.2
Indonesia	52,581	9.8	33.2
Pakistan	16,289	3.5	26.3
India	46,370	1.7	24.0
Bangladesh	9,506	1.8	24.2
Middle income countries			
Malaysia	na	14.3	20.0
Philippines	29,962	6.9	25.7
Thailand	20,710	6.2	20.6
Republic of Korea	40,459	13.0	27.5
High income countries			
Hong Kong	na	na	na
Singapore	4,491	4.3	2.4

Source: World Development Report 1989.

TABLE 7: NET DISBURSEMENT OF ODA

Country	Net Disbursement of ODA from All Sources: as Per Cent of GNP (1987)
Low income countries	
Sri Lanka	7.5
Indonesia	1.8
Pakistan	2.4
India	0.7
Bangladesh	9.3
Middle income countries	
Malaysia	1.2
Philippines	2.2
Thailand	1.1
Republic of Korea	0.0
High income countries	
Hong Kong	0.0
Singapore	0.1

Source: World Development Report 1989. ODA refers to Overseas Development Assistance.



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the world, several Asian countries increased capital expenditure when the recession started to dampen the growth of revenues. After a few years of exceptionally high deficits, however, they were cut back; this is exemplified by Malaysia, Sri Lanka, the Philippines and the Republic of Korea [ILO 1987:10].

There were marked differences in the impact of the recession on South and non-South Asian countries. The former were less 'open' economies and had a significantly lower degree of trade dependence, excepting Sri Lanka, with a ratio of exports to GDP of under 10 per cent and 5-6 per cent in India. These countries were insulated from international economic forces compared to other Asian economies and NICs [Lee 1987:100].

However, it is essential to qualify the response of the Asian countries to the recession. The instruments of adjustment were geared mainly towards short-term stabilisation. These did not add up to a long-term strategy. Increased internal and external borrowings to meet fiscal and current account deficits are likely to intensify problems if long-term instruments are not introduced to boost the growth of exports and GDP. The problems have not been overcome without costs—a clear deceleration in GDP growth of most Asian countries during the last few years has been accompanied by increases in income inequality, unemployment and in some countries absolute poverty. Deficits have widened implying a further burden of debt servicing. The vulnerable groups are likely to be doubly affected: initially through the impact of recession and decelerated growth and subsequently through the consequences of adjustment. In the long run there is a need to move away from stabilisation efforts to structural changes and flexibility in the domestic production and export sectors [ILO 1987:11].

The experience of the Asian economies shows that those who were more industrialised benefited from falling oil prices in recent years. Debt servicing has assumed importance for many because of falling rates of production and export growth. Declining export prices have affected a number of countries. Those adversely affected have been the Philippines, Thailand, Sri Lanka, Bangladesh, Malaysia and Indonesia. Thus, Philippines has been the worst hit, with depressed sugar and coconut prices (i.e. in 1986) causing major shortfalls in income and underemployment in the country [ILO 1987:3; Montes 1987]. Thailand too has been affected by falling prices of rice, sugar and tin but has been able to absorb the shocks through measures in other sectors. Sri Lanka and Bangladesh have confronted falling prices for their exports and this has led to a reduction of government revenues and foreign exchange earnings. Malaysia

and Indonesia have also been forced to take austerity measures in the face of declining output and employment in the sectors concerned. Only the industrialised countries of the region have been able to counterbalance the fall in other sectors [ILO 1987:3].

CONCLUSION

The global recession which emerged between 1979-81 gave rise to severe indebtedness, ushering in structural adjustment policies which aimed to restore balance of payments equilibrium.¹³ While many developing countries in Africa and Latin America have been confronted with indebtedness, most of the Asian countries, have been able to minimise the adverse consequences of global recession.

The experience of the Asian economies suggests that countries with relatively open economies are likely to be affected directly by global changes compared with relatively closed economies. However, the nature of the external economy, and the structure of the domestic economy need to be integrated into the analysis. Basically, the Asian experience suggests that global recession may have serious consequences for countries which are exporters of primary products with a significant agricultural sector,¹⁴ employing a high proportion of the labour force. In contrast, open economies based on exports of manufactured goods are likely to face different demand conditions, with relatively favourable terms of trade. The agricultural based economies and those with relatively 'open' economies such as the Philippines, Thailand and Bangladesh, confronted the brunt of adjustment. But most of the Asian economies have been able to withstand the problems emanating from recession, deteriorating terms of trade and protectionism in developed industrial countries. Debt servicing capacity proved to be strong. The Asian experience highlights the ways in which the state coped with adverse economic problems, stemming from global recession, through voluntary adoption, at the right time, of stringent fiscal and monetary policies, which embraced not only the restoration of external balance but also the long-term goals of development.

IV

Structural Adjustment and Development: Some Insights

The experience of structural adjustment policies offers useful insights into the development process. The focus of development policies has been on growth and reduction of poverty, underpinned by strategies to bring about a transformation from an agricultural to an industrial economy. In this context, the major motivation behind structural adjustment has been the repayment of external

debts and establishment of balance of payments equilibrium. Moreover, the emphasis on market led policies arouses critical questions about the ideology underlying this thrust. The experience of Nigeria, in West Africa, which had to confront severe indebtedness, followed by structural adjustment, contrasts sharply with most of the Asian countries, which did not face such problems, and at the most were able to adopt 'self-imposed' and diluted forms of adjustment.

The analysis shows that the need for adjustment is intrinsically related to restoring balance of payments equilibrium, with trade, fiscal and monetary policies aimed at curtailing domestic demand and stimulating exports. The adoption of all the adjustment policies, or only specific ones, mirrors the capacity of an economy to cope with economic crisis. A division can be made into economies which (a) are virtually compelled to pursue harsh measures inspired by external financial and aid agencies and (b) those which are able to minimise the impact of global recessions and hence the need for such measures. The first is exemplified by the experience of Nigeria, and the second by most of the Asian economies, with exceptions such as the Philippines; however, the experience of most of the newly industrialising countries of Asia suggests that their scope of coping with the global crisis through the use of selective instruments to correct balance of payments imbalances, has to be related to the structure of their economies. In essence, the analysis shows that adjustment need not be a limited short-term measure but can be a powerful tool in bringing about genuine restructuring and development of an economy.

The Nigerian experience of SAP illustrates a shift in emphasis from state to market based policies mirroring a drastic change in ideology, which has not only economic but also far-reaching social and political implications. External agencies, such as the IMF and the World Bank, are clearly likely to have a major influence in formulating and possibly giving support to such policies.

The Nigerian experience suggests that the emergence of adjustment based policies may mark the culmination of development programmes which may have failed to accomplish their objectives. In this respect, adjustment has tended to bring about excessive emphasis on debt repayment and a departure from the more 'conventional' objectives. Against a background of the major aim of reducing external debts and debt servicing, the role of agriculture is likely to be of critical importance, given that it is the major sector in most developing countries. However, the underlying policy, under SAP, of encouraging the traditional exports, may prove to be self-defeating in the long run, if the same policy is applied to

other countries, bringing about an increase in supply and a fall in prices: the 'fallacy of composition'.

At the sectoral level, markets may prevail before the imposition of any formal adjustment programmes, as in the food sector in Nigeria, but factors such as infrastructure and technology, apart from price, may inhibit boosting food production. Moreover, the experience of cash crop cultivation, primarily for exports, but possibly also for domestic use, may benefit particular regions and specific groups of farmers. These may exacerbate inter-regional and inter-class inequalities. In terms of inter-sectoral relationships, adjustment programmes may bring about a sharp reduction in the so-called 'rural-urban' inequality, but the explanation for this is likely to be closely associated with the impact of SAP on the urban sector, with a sharp increase in unemployment and a fall in real incomes, and hence poverty. Above all, the shift from state to market based policies under SAP indicates a drastic change in ideology.

The experience of adjustment in the South Asian countries cannot be divorced from the nature of the economies, which fell broadly into relatively 'open' and 'closed' economies; the former including both agricultural and industrial exports, and large and small economies. It would seem that relatively closed economies have been more protected from global recessions, although this by itself does not suggest that development will materialise. The experience of the newly industrialising countries of south-east Asia reveals, however, that in spite of having relatively open economies, the structure of exports coupled with the strength of domestic policies may enable such economies to protect themselves from the vagaries of global slumps. Moreover, the scope of coping with adverse economic problems through voluntary austere measures at the right time, based on stringent fiscal and monetary policies, may help to restore external balance and ensure the pursuit of development. In this respect, the extensive state intervention in most of these economies was a major factor in creating the appropriate conditions for effective policy implementation. The experience of the Philippines, in contrast, shows the inability to transform adequately either the domestic or the external sector, increasing the vulnerability of the economy to adverse global changes, with far-reaching implications for external debts, imposition of unpalatable policies by external agencies, and domestic socio-political strife.

Basically, there is a need to re-assess the aims and strategies underlying structural adjustment policies, both in terms of their short- and long-term virtues, taking into account more fully the economic and socio-political outcome of such policies. It would be foolish to separate structural adjustment

policies from the 'conventional' development policies which set out to transform a developing economy. Clearly, questions of acceleration of agricultural productivity, farm and non-farm employment, and the role of markets, need to be related to the structure of developing economies. The perception of adjustment evolved by Streeten provides a useful context for evaluating adjustment and development policies. This implicitly places considerable emphasis on state intervention, which has been unduly, and harshly, curbed in many developing countries, particularly in Africa, with the main responsibility placed on the market to bring about economic change.

Notes

[Aspects of this paper were presented at various universities in the UK, including York, London, Birmingham and City, over 1990-1992. The paper draws from the author's research at the International Labour Organisation on adjustment in Nigeria. He is grateful to many people for discussion on this problem and in particular to Samir Radwan, Vali Janial, Reg Green, Hans Singer and T V Sathyanurthy. But the author is solely responsible for the views presented.]

- 1 The roots of the background to adjustment in most developing countries can be traced to the shifts in the global economy since the 1970s and in the case of Nigeria austerity policies were in place before the format SAP came into being; discussed in Roy (1990a and 1990b).
- 2 This is based on the author's calculations using producer prices for 1985-86 buying season (pre-SAP), official recommended prices for 1986-87 buying season (but not approved for announcement before the abolition of Commodity Boards) and post-FEM prices in 1986-87 buying season. It is based on data from the Central Bank of Nigeria, Annual Report and Statement of Accounts

for the year ended December 31, 1987, Secretariat of the Technical Committee on Producer Prices (1985-86 and recommended prices for 1986-87) and Central Bank National Agricultural Survey (for post-FEM prices). Real producer prices in 1986-87 (using base year 1985-86=100) calculated by deflating producer prices for 1985-86 and 1986-87 using the Consumer Price Indices (base year 1975=100) based on Table 32 'Composite Consumer Indices', page 44 of the report.

- 3 The national unemployment rate rose from 4.3 per cent in June 1985 to 7 per cent in December 1987, falling subsequently in March 1988 to 5.1 per cent. The urban sector was hit to a greater extent by the rise in unemployment; urban unemployment increased from 7.3 per cent in December 1983 to 8.7 per cent in June 1985 and 11 per cent in June 1986. Although the urban unemployment rate fluctuated between December 1986 to March 1988, reaching its lowest point at 7.3 per cent, it had a much higher rate of unemployment compared with the rural sector. Unemployment in the rural sector was only 3 per cent in June 1985, increasing to 6.9 per cent in June 1986, but falling subsequently to 4.6 per cent in December 1986. It increased to 4.9 per cent in June 1987 and 6.1 per cent in December 1987, but it fell sharply to 4.6 per cent in March 1988. The figures are national averages and therefore conceal inter-regional variations in rural unemployment. This is based on calculations from data in World Bank (1988).
- 4 Real minimum wages fell by 47 per cent between 1981-85. This is based on data provided by JASPA, Jobs and Skills Programme for Africa, International Labour Organisation.
- 5 Among the rural wage earners, real household income showed a drastic fall of 53 per cent between 1980-81 and 1986-87; over 1985-86 to 1986-87 it fell by 12 per cent. Based on World Bank (1988).
- 6 Thus, the 1975 average wage would have

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easily purchased the 'minimum needs' basket for an average family; by 1979 it would have bought only 75 per cent of such a basket, in 1983, 66 per cent and in 1986 just 53 per cent [Jamal 1986: 21].

- 7 For a comparative study of the role of technology in Nigeria and India see Roy (1990a).
- 8 For an analysis of changing global conditions since 1945 and its impact on developing countries, see Singer and Roy (forthcoming).
- 9 In sharp contrast to Asia, the African countries were badly hit in the 80s by recession. [See ILO 1989 and Roy 1990b].
- 10 On the nature of state and market policies in the Asian countries see Hamilton (1987) and Cuyvers and Bulcke (1989).
- 11 Many policy-makers have suggested uncritically that the Asian NICs should form a model for other developing countries.
- 12 On the rural sector in Asia see ILO (1988 c) and Shovan Ray (1987).
- 13 For an analysis of the India's adjustment policies in the early 1990s under 'liberalisation' see Roy (in press).
- 14 Boosting food production through technology has assumed major importance in Asia and more recently, though with less success, in Africa. For a comparative study of technology and food production in India and Africa see Roy (1990a).

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Sexual Harassment at Work

GIVEN various social taboos in many Asian countries, statistics on sexual harassment are hard to come by. However, those that are available indicate that sexual harassment is extremely widespread. Currently, statistics are more widely available in western countries. In Britain, in a recent survey of workplace unions by the union-based labour research department, 73 per cent of respondents said some form of sexual harassment had taken place in their workplace. In the US, the number of sexual harassment complaints filed with the US Equal Opportunity Commission increased 50 per cent between October 1991 and June 1992, following the publicity around the hearings of Supreme Court candidate, Judge Clarence Thomas, who was alleged to have harassed a colleague, Anita Hill.

The European Community has recently produced a code of practice on the subject saying "sexual harassment means unwanted conduct of a sexual nature, or other conduct based on sex affecting the dignity of women and men at work". The victims are nearly always women (although statistics show men are sometimes harassed) and the attacker, usually a man, is often in a position of authority over the woman he harasses.

The Asia-Pacific Regional Organisation of the International Confederation of Free

Trade Unions (ICFTU-APRO) launched a campaign against sexual harassment in 1992, and listed some examples of sexual harassment it aimed to tackle: commenting on a woman's anatomy, e.g. her breasts and buttocks; making repeated invitations for private meetings; making offensive sexist jokes; making conversation with sexual connotations or innuendoes; soliciting sexual favours; showing pornographic materials; touching, caressing or fondling without consent. Few companies in Asia have clear guidelines to deal with sexual harassment, and few, if any Asian governments have made concerted efforts, for instance through laws or education campaigns, to stop it. Little mention has been made so far of trade union activities against sexual harassment. This is because unions in Asia have generally been inactive on this issue, but this may gradually be changing.

The European Community's code of practice encourages employers to take action, such as to: issue a policy statement on sexual harassment; communicate it effectively to all employees; designate someone to provide advice to employees subjected to harassment; adopt a formal complaints procedure; and treat sexual harassment as a disciplinary offence.

—Asian Labour Update

Pattern of Urbanisation in Madhya Pradesh

A C Minocha

AMITABH KUNDU in his 'Urbanisation and Alternate Policy Perspectives' (*EPW*, June 26) has rightly questioned the validity of the proposition which is being assiduously presented by international aid agencies and the government of India that the urban structure in India is balanced and stable over time, reflecting the process of healthy economic development and, therefore, the urban economy needs to be decontrolled and participation of private sector in urban development projects encouraged. The present note lends support to the contention of Kundu, by presenting the pattern of urbanisation in Madhya Pradesh (M P), one of the less developed and less urbanised states of India but with tremendous potential for development because of its vast and varied natural resources.

Though Madhya Pradesh recorded a higher rate of urban population growth during 1981-91 than the national average (36.19 per cent) has manifested a deceleration in decadal growth rate from 56.03 per cent in 1971-81 to 44.98 per cent in 1981-91. This higher rate of urban growth is more due to increase in the number of towns and extension of limits of municipal areas and less due to increase in the population of existing towns caused by economic development. The number of towns has gone up from 303 in 1981 to 433 in 1991, partly due to the emergence of new urban centres within the proximity of large cities, new centres of mineral and industrial development and thermal power stations and partly due to the creation of urban local bodies in a number of settlements which in fact were outgrown villages, exhibiting most of the rural characteristics. Majority of the towns, 381 out of 433, are small towns, each with a population of less than 20,000. This fact is highlighted by the following table.

The table reveals that class I cities, despite increase in their number from 14 to 23, have recorded deceleration in growth rate from 61.75 per cent in 1971-81 to 56.11 per cent in 1981-91. But if we take growth of population according to size class of towns in 1971 Census in respect of 1971-81, and in 1981 Census in respect of 1981-91, then the decadal rate of growth of class I cities has been quite low and has plummeted from 48.45 per cent in 1971-81 to 30.15 per cent in 1981-91. The nine newly emerged class I cities have re-

corded a growth rate of 58.67 per cent in 1981-91 as against 30.15 per cent recorded by 14 older cities.

One striking feature revealed by 1991 Census is that all the 14 old class I cities have manifested deceleration in growth rate of population in 1991 compared to 1981. The lowest rate of growth has been recorded by Jabalpur (17.15 per cent), followed by Burhanpur (23.8 per cent), Sagar (23.8 per cent), Bilaspur (24.83 per cent) and Gwalior (29.54 per cent).

Rhopal, the capital of the state which had recorded growth rate varying between 72 to 74 per cent between 1961-71 and

1971-81, manifested a lower rate of growth of 58.5 per cent in 1981-91. Korba where BAI.CO is located and where there is also a thermal plant, has recorded a very fast rate of growth of 162.83 per cent in 1961-71 and 155.37 per cent in 1971-81 but only 45.14 per cent in 1981-91. Similarly, Durg-Bhilai, Raipur and Bilaspur which had witnessed faster growth rates in the earlier decades due to accelerated growth of industries, could not maintain the earlier tempo of population growth, once industrial growth got stabilised. This deceleration in population growth rate in older class I cities may be attributed to slackening of economic activities, declining employment growth rate, policy of dispersal of industries to new growth centres. Jabalpur which has recorded the lowest urban growth rate among all the class I cities of the state, has recorded a growth

TABLE 1: GROWTH OF URBAN POPULATION IN MP 1971-91

Size Class	Number of UA/Towns			Per Cent of Urban Population in Each Size Class			Inter-censal Growth Rate			
	1971	1981	1991				1971-81		1981-91	
				1971	1981	1991	(a)	(b)	(a)	(b)
All	229	303	433	100	100	100	56.03	44.81	44.98	32.00
I	11	14	23	45.14	46.7	50.39	61.75	48.45	56.11	30.15
II	12	28	29	11.08	18.0	13.94	153.79	41.68	12.11	37.82
III	40	41	69	19.35	12.25	12.8	-1.25	48.39	51.73	30.64
IV	71	113	177	14.14	15.14	16.15	67.13	36.33	54.60	30.28
V	88	104	130	9.88	7.68	6.58	21.23	37.04	24.33	35.31
VI	7	3	5	0.41	0.12	0.13	54.79	33.42	58.40	27.86

Notes: (a) Refers to the growth of urban population according to the size class given in each census.

(b) Refers to the growth of population according to the size class of town in the 1971 Census in respect of decade of 1971-81 and in the 1981 Census in respect of the decade 1981-91.

TABLE 2: DECADEAL GROWTH RATES OF POPULATION AND EMPLOYMENT IN CLASS I CITIES

City	Population		Decadal Growth Rate			Employment Growth Rate
	1981	1991	61-71	71-81	81-91	
1 Indore	827071	1104065	42.03	47.85	33.13	39.50
2 Bhopal	672329	1063662	72.62	74.35	58.51	61.25
3 Jabalpur	757726	887188	45.73	41.59	17.15	15.59
4 Gwalior	559776	720982	35.12	36.86	29.54	27.41
5 Durg Bhilai	490158	688670	83.99	99.91	40.49	36.00
6 Raipur	338973	461851	47.35	64.21	36.54	36.80
7 Ujjain	281878	367154	44.67	35.31	30.10	34.36
8 Sagar	207401	256878	47.87	33.04	23.81	28.61
9 Railam	155490	195752	36.33	30.37	25.82	27.38
10 Burhanpur	141142	172809	28.32	33.85	22.57	18.24
11 Bilaspur	186885	233570	50.79	36.90	24.83	28.80
12 Murwara	125096	163390	43.10	42.16	32.82	25.90
13 Rewa	100519	128918	60.65	45.47	28.10	25.36
14 Khandwa	114463	145111	34.48	34.33	26.49	29.40
15 Dewas	83356	163699	50.00	60.92	96.13	na
16 Salna	96399	160191	63.35	55.51	65.71	—
17 Morena	69848	147095	58.45	55.60	110.54	—
18 Rajnandgaon	86343	125394	24.95	54.66	45.22	—
19 Korba	83423	124365	162.80	155.30	49.14	—
20 Bhind	83356	109731	62.34	62.72	47.26	—
21 Shivpuri	75689	108271	77.32	48.92	42.95	—
22 Damoh	76686	105032	28.56	27.97	36.84	—
23 Guna	64655	100389	36.41	52.74	55.26	—

TABLE 3: PERCENTAGE OF MAIN WORKERS IN THE STATE

Census Year	Cultivators	Agricultural Labourers	Total in Agricultural	Workers in Industry	Other Workers	Total Non-Agricultural
1971	52.86	26.56	79.42	3.64	16.94	20.58
1981	51.96	24.24	76.20	3.52	20.28	23.80
1991	51.87	23.50	75.37	3.08	21.55	24.63

rate of 15.5 per cent in employment in secondary and tertiary sectors during 1981-91, followed by Burhanpur (18.24 per cent). Cities like Ratlam, Gwalior, Murwara, Khandwa, Rewa, Sagar and Bilaspur have shown employment growth rates varying between 25 and less than 30 per cent during 1981-91. These rates are mostly lower than the growth rate of manpower in these cities. Bhopal, being the capital of the state, has shown the highest rate of growth of employment of 61.25 per cent, mainly in the tertiary sector. Indore, the industrial and commercial centre of the state recorded a growth rate of 39.5 per cent in employment which is not very high looking at the industrial and commercial activities at the centre. Another factor accounting for deceleration in the rate of class I cities is the process of urban industrial dispersal around large cities, manifested by location of growth centres mainly within the proximity of large cities like Bhopal, Indore, Gwalior, Jabalpur, Raipur, Bilaspur and Rewa.

Of the 23 class I cities, only five have recorded higher decadal growth of population in 1991 compared to 1981, and all these five cities are such which have attained the status of class I in 1991 for the first time. Of these five cities, the highest rate of growth has been shown by Morena (110.54 per cent) due to inclusion of 16 villages within the municipal limits, followed by Dewas (96.13 per cent), Guna (96.13 per cent), and Satana (65.71 per cent) mainly due to industrial development. We do not have data in respect of employment in secondary and tertiary sectors in these cities for 1981, hence we could not present the decadal growth rate of employment in these newly emerged class I cities for 1981-91.

Table 2 shows that urban population in the state continues to be concentrated in class I cities which have increased their share in total urban population from 46.79 per cent in 1981 to 50.38 per cent in 1991. This increase has mostly taken place at the cost of such class II towns which have jumped to the higher class. The percentage shares of all other classes of towns except class IV have declined. Despite increase in the number of towns from 113 to 177, class IV towns have shown only a marginal increase in their share from 15.14 per cent of total urban population in 1981

to 16.15 per cent in 1991. This reveals imbalance in urban hierarchy. Due to size class jumping, class II towns have shown a decadal growth rate of only 12.11 per cent in 1991 as against 153.79 per cent in 1971-81. This is because of the fact that nine class II towns which had moved up to class I in 1991 were near the upper range of class II and 10 such towns which had moved up from class III to class II were near the lower range of class II.

Rapid urbanisation in the state is taking place not so much in response to industrial development as due to push factors operating in the rural economy as revealed by slow growth of rural population, 22.2 per cent in 1981-91, and also due to the emergence of new towns. There has been very slow change in the occupational structure of workers in the state (Table 3).

The 1970s had witnessed a greater decline in percentage of main workers in the agricultural sector and a corresponding increase in non-agricultural sector, mainly due to location of public and private sector industrial projects in certain urban centres and expansion of tertiary sector. But the process of structural changes in employment seems to have slackened in the 1980s when there has been only marginal shift of workers from agriculture to non-agriculture. Urbanisation in the state is not reflected in any substantial growth of employment in non-agricultural sector.

The participation rate for total population works out to be 42.7 per cent in 1991, slightly less compared to the 1981 figure of 42.92 per cent. In rural areas, there is marginal increase from 46.3 per cent to 46.69 per cent and in urban areas there is a marginal decline from 29.62 per cent to 29.49 per cent. The state experiencing high urban growth has not shown growth of employment large enough to compensate for the decline in workforce as a result of withdrawal of children and aged from the workforce.

The 1991 Census has shown the emergence of 138 new towns in the state. Though these towns are fairly well distributed across districts, 59 of these are located in the eastern region of the state—Shahdol-Raipur-Bilaspur tribal sub-region which is mineral rich, and 53 in Malwa region which is predominantly agricultural. Population of new towns accounted for 9 per cent of the total urban population in 1991,

accounting for nearly 30 per cent of increase in urban population in 1981-91. Had these towns not emerged on the scene, urban population growth in the state would have been about 32.2 per cent instead of 44.98 per cent.

The above discussion shows that urban hierarchy that has emerged in the state is becoming distorted, characterised by concentration of population in few class I cities, deceleration in growth rate of class I cities and urbanisation mostly taking place in response to increase in the number of towns and migration from rural to urban areas due to push factors operating in rural areas and not due to healthy economic development. There has been little diversification of occupations in the state to account for urban growth higher than the national average. The urban structure is not yet stable and is likely to show further imbalances and distortions unless we formulate an urbanisation policy and adopt urban planning for integrated development of towns. The recent liberal economic policies would also cause further concentration of industries in already developed areas.

Urban growth needs regulation and direction. Planning at the macro-level has been diluted in the wake of liberalisation. It will, at best, remain as indicative planning. But at the micro-level there is considerable scope for decentralised planning through local-self government. Urban infrastructure has to be created by urban authorities, and urban land uses need to be planned. Urban infrastructure like roads, water supply, electricity, housing for the poor, environmental protection, parks and gardens, sewerage and drainage, cannot be left to the private sector. Because of huge potential for industrial development, the state is likely to witness a spurt in industrial growth in the near future. Hence a well-defined urbanisation policy and regional plans for integrated rural-urban development, need to be formulated. There would be ample scope for the private sector in the urban economy.

THE CRISIS OF IMPERIALISM

(Rs.5-00)

by
Subrata Bhattacharya

Available at:
APDR
C/o Sm. Tilottama Bhattacharya
18, Madan Boral Lane
CALCUTTA: 700 012.

Standard Chartered

(Incorporated in the United Kingdom with Limited Liability)

BALANCE SHEET FOR INDIAN OFFICES AS ON 31ST MARCH 1993

PROFIT AND LOSS ACCOUNT OF INDIAN OFFICES FOR THE YEAR ENDED 31ST MARCH 1993

(In thousands of Indian Rupees)

(In thousands of Indian Rupees)

	Notes	1993	1992 (Note 20)		Notes	1993	1992 (Note 20)
CAPITAL AND LIABILITIES				INCOME			
Capital	4	184,913	184,913	Interest earned	16	4,421,488	3,524,073
Reserves and Surplus	5	1,250,425	133,898	Other income/ (expense)	17	(2,756,466)	574,092
Deposits	6	23,233,757	15,620,266			1,665,022	4,098,165
Borrowings	7	25,521,097	6,275,432	EXPENDITURE			
Other liabilities and provisions	8	2,994,163	4,794,327	Interest expended	18	4,874,966	2,600,763
		52,999,442	26,823,923	Operating expenses	19	870,814	621,820
ASSETS				Provisions and contingencies		8,737,662	2,462,612
Cash and balances with Reserve Bank of India	9	8,143,647	3,181,137			14,483,442	5,685,195
Balances with banks and money at call and short notice	10	1,134,673	1,638,065	PROFIT/LOSS			
Investments	1(c), 2 & 11	21,821,852	8,265,037	Net profit/(loss) for the year	1 (8)	(12,818,420)	(1,587,030)
Advances	1(d) & 12	7,856,481	7,908,504	Net profit/(loss) brought forward		-	-
Fixed assets	1(e) & 13	1,348,899	185,375			(12,818,420)	(1,587,030)
Other assets	2 & 14	12,693,890	5,645,805	APPROPRIATIONS			
		52,999,442	26,823,923	Transfer to statutory reserve		-	-
Contingent liabilities	15	50,015,701	47,715,802	Transferred to Head Office account		(12,818,420)	(1,587,030)
Bills for collection		927,890	732,335			(12,818,420)	(1,587,030)

The accompanying notes are an integral part of this statement.

Arthur Andersen & Associates
Chartered Accountants

Sd/-
Vijay Sahni
Partner

Sd/-
C Taneja
Chief Financial Officer

Sd/-
A M Fletcher
Acting Chief Executive, India

Bombay
8th September, 1993

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED MARCH 31, 1993

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) General

The accompanying financial statements of Standard Chartered Bank—Indian Branches ('the Bank') are prepared under the historical cost convention (as modified by note 1 (e) below) and conform to the statutory provisions and practices prevailing within the banking industry in the country.

(b) Transactions involving foreign exchange

- (i) Monetary assets and liabilities in foreign currencies are translated at market rates of exchange notified by the Foreign Exchange Dealers Association of India at the close of the year.
- (ii) Income and expenditure items are translated at the exchange rates prevailing on the date of the transaction.
- (iii) Outstanding forward contracts are revalued at the forward exchange rates prevailing at the year end and the resulting profit or loss accounted for.

(c) Investments

- (i) Investments in Government and other approved securities and other quoted investments are valued at the lower of cost or market value. Where market quotations are not available, the market value is estimated by management based on market yield expectations for investments of comparable risk and duration and on indicative broker quotations.
- (ii) Unquoted investments, including investments in subsidiary companies, are valued at cost less amounts written off, if any.

(d) Advances

Doubtful advances are identified by periodic appraisals of the portfolio and provisions are made to the satisfaction of the auditors. The related interest on such doubtful advances is credited to an interest suspense account and not accrued to profits until received. Advances in the balance sheet are stated after deduction of provisions and interest in suspense. All provisions against doubtful advances are made on a gross basis with tax relief being accounted for only in the year of write-off.

(e) Fixed assets and depreciation

- (i) Fixed assets are stated at historical cost less accumulated depreciation, except premises which are revalued and stated at market values determined by a Government registered valuer. The surplus arising on revaluation is credited to a revaluation reserve.
- (ii) Depreciation is provided at the rates listed in Schedule XIV of the Companies Act, 1956. Assets acquired from 1984 and onwards are depreciated on the straightline method and all other assets on the diminishing balance method.

(f) Staff benefits

Approved pension fund schemes cover employees retiring post January 1, 1978. Retiring allowances being paid voluntarily to pre-1978 retirees are accounted for on a payment due basis. The accrued liability thereon has not been quantified. A provision has been made for contributions due to an approved gratuity fund set up on April 1, 1992 to cover eligible employees.

(g) Net profit/(loss)

The net profit/(loss) disclosed in the profit and loss account is after accounting for, *inter alia*, provision for income tax, provision for doubtful advances and other usual and necessary provisions.

2. INVESTMENTS AND CLAIMS

(a) During 1992, the Bank identified deficiencies in its assets arising from its transactions in the securities markets as described below:

- (i) At March 31, 1993, the assets in question amounted to Rs 12,702 million and are included (net of cumulative provisions and write-offs of Rs 10,636 million) as claims (see Note 14).
- (ii) The Bank has filed criminal complaints with the Central Bureau of Investigation ('CBI') in respect of the above deficiencies, alleging that a number of individuals, including certain brokers and two of the Bank's dismissed employees, conspired together to defraud the Bank. The CBI is investigating and pursuing these complaints.
- (iii) The Bank is also pursuing civil action, against several banks and financial institutions to recover amounts aggregating Rs 5,857 million, some of which are also the subject matter of (ii) above.
- (iv) The Bank is aware of claims against it amounting to Rs 2,103 million, including claims of Rs 1,632 million which, if successful, would result in the Bank itself having claims on other parties.
- (v) During the year, on a prudent basis, the Bank has provided/written off Rs 8,255 million (1992: Rs 2,381 million) to recognise the deficiencies in its assets, pending the eventual outcome of the claims and counterclaims.

(b) The Bank holds certain investments which are under serious challenge following the issuance of the Special Court (Trial of Offences relating to Transactions in Securities) Ordinance, 1992. Accordingly, the Bank has, on a prudent basis, depreciated/written off the entire amount of Rs 2,078 million for these investments.

(c) As a result of the circumstances prevailing generally, consequent to the irregularities in the securities markets, certain of the Bank's investments have been affected as follows:

- (i) Bankers Receipts ('BR') held of Rs 136 million, net of liabilities on account of BRs issued of Rs 2,196 million. These BRs held, and Subsidiary General Ledger ('SGL') forms of Rs 2,328 million have been issued by nationalised banks and financial institutions. Although these BRs and SGLs have not been settled on their due dates, these have been acknowledged by the counterparties and are currently in the process of being settled.
- (ii) Securities aggregating Rs 240 million (Face value Rs 300 million) are still to be transferred in the Bank's name by the issuer. The Bank is pursuing this matter to cause the registration of the transfer.

3. GOING CONCERN ASSUMPTION

At March 31, 1993 the Indian Branches had a net deficit of Rs 7,805 million in its Head Office account (see Note 14) as compared to its owned funds of Rs 1,250 million (see Note 5). To support the Indian Branches as a going concern, the Head Office provided short-term deposits to the Indian Branches to meet its liquidity requirements and also injected contribution of Rs 6,389 million during the year and Rs 6,083 million in June 1993. In addition, the Head Office is committed to inject further contributions, if required, to support the Indian Branches. Accordingly, these financial statements are prepared on a going concern basis.

Standard Chartered

(Incorporated in the United Kingdom with Limited Liability)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED MARCH 31, 1993

	1993	1992		1993	1992
4. CAPITAL			10. BALANCES WITH BANKS AND MONEY AT CALL AND SHORT NOTICE		
Deposit kept with the Reserve Bank of India under Section 11(2) of the Banking Regulation Act, 1949	184,913	184,913	In India		
5. RESERVES AND SURPLUS			Balances with banks	804,133	1,107,655
Statutory reserve	133,898	133,898	In current accounts		
Revaluation reserve	1,116,527	—	Money at call and short notice	—	150,000
	1,250,425	133,898	With banks	804,133	1,257,655
6. DEPOSITS			Outside India		
In India			In current accounts	330,540	380,410
Demand deposits				1,134,673	1,638,065
From banks	86,764	97,833			
From others	2,054,508	3,578,109	11. INVESTMENTS (see Note 2)		
	2,141,272	3,675,942	In India		
Savings bank deposits	1,486,562	1,518,953	Government securities	11,068,619	2,982,491
Term deposits			Other approved securities	1,870,533	969,257
From banks	10,200,000	—	Shares	59,623	55,493
From others	9,405,923	10,425,371	Debentures and bonds	8,341,494	4,244,881
	19,605,923	10,425,371	Subsidiaries/joint ventures	31,913	12,798
	23,233,757	15,620,266	Others (Units)	449,670	117
7. BORROWINGS				21,821,852	8,265,037
In India			Investments at March 31, 1993, exclude treasury bills sold under repurchase agreements, Rs 934 million and include treasury bills purchased under reverse repurchase agreements, Rs 98 million.		
Reserve Bank of India	386,600	150,000	12. ADVANCES		
From banks	23,678,385	4,203,140	(a) Bills purchased and discounted	775,516	1,089,638
From other institutions and agencies	1,456,112	1,922,292	Cash credits, overdrafts and loans repayable on demand	6,155,289	5,434,145
	25,521,097	6,275,432	Term loans	925,676	1,334,721
Secured borrowings included above	432,492	207,641		7,856,481	7,908,504
8. OTHER LIABILITIES AND PROVISIONS			(b) Secured by tangible assets	6,726,044	5,478,343
Bills payable	1,120,067	1,396,261	Covered by bank/Government guarantees	551,792	215,307
Inter-office adjustments (net)	246,100	—	Unsecured	578,645	2,214,854
Interest accrued	900,687	746,624		7,856,481	7,908,504
Others (including provisions)	727,309	2,651,442			
	2,994,163	4,794,327	(c) Advances in India		
9. CASH AND BALANCES WITH RESERVE BANK OF INDIA			Priority sector	322,655	1,119,231
Cash in hand (including foreign currency notes)	68,088	55,222	Public sector	931,228	525,224
Balances with Reserve Bank of India			Banks	89,338	28,896
In current accounts	8,075,559	3,125,915	Others	6,513,260	6,235,153
	8,143,647	3,181,137		7,856,481	7,908,504

Standard Chartered

(Incorporated in the United Kingdom with Limited Liability)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED MARCH 31, 1993

	1993	1992		1993	1992
13. FIXED ASSETS (at book value)			16. INTEREST EARNED		
Premises			Interest/discount on advances/bills	2,166,117	2,354,833
Beginning of year	39,048	39,104	Income on investments	2,060,425	812,359
Additions during the year	—	16	Interest on balances with Reserve Bank of India and other inter-bank funds	178,578	274,617
Revaluation during the year	1,116,527	—	Others	16,368	82,264
Deductions during the year	—	(72)		4,421,488	3,524,073
	1,155,575	39,048			
Less: Depreciation to date	(15,568)	(14,780)	17. OTHER INCOME/(EXPENSE)		
	1,140,007	24,268	Commission, exchange and brokerage	289,883	309,864
Other fixed assets (including furniture and fixtures)			Profit/(loss) on sale of investments	(151,331)	6,403
Beginning of year	243,268	182,330	Loss on revaluation of investments	(3,165,108)	(24,255)
Additions during the year	80,775	62,012	Loss on sale of buildings and other assets	(478)	(260)
Deductions during the year	(2,311)	(1,074)	Profit on exchange transactions	258,407	210,361
	321,732	243,268	Income earned by way of dividends from subsidiaries/joint ventures	3,186	1,830
Less: Depreciation to date	(112,840)	(82,161)	Miscellaneous income	8,975	70,149
	208,892	161,107		(2,756,466)	574,092
Net book value	1,348,899	185,375			
Premises have been revalued at March 31, 1993 and the surplus arising on revaluation has been credited to a Revaluation reserve.			18. INTEREST EXPENDED		
14. OTHER ASSETS (see Note 2)			Interest on deposits	1,896,764	977,799
Head Office account (includes loss for the year Rs 12,818,420; 1992: Rs 1,587,030)	7,804,596	1,210,054	Interest on Reserve Bank of India/inter-bank borrowings	2,961,139	1,516,857
Inter-office adjustments (net)	—	475,235	Others	17,063	106,107
Interest accrued	1,052,120	631,611		4,874,966	2,600,763
Tax paid in advance/tax deducted at source (net)	1,177,777	509,729	19. OPERATING EXPENSES		
Stationery and stamps	844	491	Payments to and provisions for employees	398,649	300,633
Others	2,658,553	2,818,685	Rent, taxes and lighting	54,775	36,373
	12,693,890	5,645,805	Printing and stationery	30,537	25,996
Others include:			Advertisement and publicity	14,505	20,316
Claims	2,066,364	2,488,000	Depreciation on bank's property	32,177	22,860
Other items	592,189	330,685	Directors' fees, allowances and expenses	329	101
	2,658,553	2,818,685	Auditors' fees and expenses	1,600	310
15. CONTINGENT LIABILITIES			Law charges	27,003	7,938
Claims against the Bank not acknowledged as debts	2,109,693	6,118	Postage, telegrams, telephones, etc	47,036	36,945
Liability for partly paid investments	19,615	500	Repairs and maintenance	42,067	38,764
Liability on account of outstanding exchange contracts (including spot exchange contracts Rs 212,713; 1992: Rs 377,743)	39,704,678	31,375,164	Insurance	16,998	7,736
Guarantees given on behalf of constituents			Other expenditure	205,138	123,848
In India	3,126,609	3,308,837		870,814	621,820
Outside India	550,408	380,114	Other expenditure includes:		
Acceptances, endorsements and other obligations	2,575,252	3,304,002	Travelling	87,787	40,990
Other items for which the Bank is contingently liable:			Computer Costs	22,617	9,256
Bills rediscounted	1,509,536	9,052,053			
Underwriting commitments	419,910	289,019	20. PRIOR YEAR COMPARATIVES		
	50,015,701	47,715,802	Prior year financial statements were audited by a firm of Chartered Accountants other than Arthur Andersen & Associates and have been reclassified to conform with current year's presentation.		

Standard Chartered

(Incorporated in the United Kingdom with Limited Liability)

AUDITORS' REPORT ON THE FINANCIAL STATEMENTS UNDER SECTION 30 OF THE BANKING REGULATION ACT, 1949

We have examined the balance sheet of the Standard Chartered Bank—Indian Branches ('the Bank') (Standard Chartered Bank is incorporated in United Kingdom with limited liability) as at March 31, 1993 and the related profit and loss account for the year then ended. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We have also obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our examination and have found them to be satisfactory.

In accordance with the provisions of Section 29 of the Banking Regulation Act, 1949 and the provisions of sub-sections (1), (2) and (5) of Section 211 and sub-section (5) of Section 227 of the Companies Act, 1956, the financial statements are not required to be, and are not drawn up, in accordance with Schedule VI to the Companies Act, 1956. The financial statements are, therefore, drawn up in conformity with Forms A and B (revised) of the Third Schedule to the Banking Regulation Act, 1949.

In our opinion, the accompanying financial statements give a true and fair view of the state of affairs of the Standard Chartered Bank—Indian Branches as at March 31, 1993 and of its loss for the year then ended.

The Bank has identified deficiencies in its assets arising from its transactions in the securities markets. Consequently, and as more fully explained in Note 2, the Bank has filed criminal complaints against several individuals and brokers alleging that they conspired to defraud the Bank and is also pursuing civil action against several banks and financial institutions. In addition, the Bank is aware of several claims against it, some of which, if successful, would result in the Bank itself having claims on other parties. Pending the eventual outcome of the Bank's claims on these individuals, brokers, banks and financial institutions, and of the claims against it, the Bank has made appropriate provisions and write-offs in these financial statements.

The reports of the Janakiraman Committee enquiring into the securities transactions of banks and financial institutions in India, critically refers to certain securities transactions of the Bank and to the manner of conducting the Bank's client investment scheme. The Bank does not accept the Janakiraman Committee's conclusions in their entirety and has communicated its response to the Reserve Bank of India.

In our opinion, subject to the effect of the resolution of the significant matter referred to in the preceding paragraph, the transactions of the Indian Branches which have come to our notice have been within the powers of the Indian Branches of Standard Chartered Bank.

Furthermore, in our opinion,

- (a) the balance sheet and the profit and loss account are in agreement with the books of account, and give the information required by the Companies Act, 1956 in the manner so required for banking companies; and
- (b) the Indian Branches have maintained proper books of account as required by law insofar as appears from our examination of those books.

Arthur Andersen & Associates
Chartered Accountants

Bombay
8th September, 1993

Sd/-
Vijay Sahni
Partner

D

istilled Spirits

Keeping the spirits of investors high. . .

Maruti Organics has set up a project to manufacture Industrial Alcohol used as a base in chemical, drug and pharmaceutical industries, and as an intermediate for plastic chemicals. Promoted by experienced entrepreneurs, the project is located in Karnataka State, which alone generates a demand of 1052 lakh bulk litres per annum (during the year 1991-1992) and projects a demand-supply gap of 162 lakh bulk litres of the product. The fuel oil, by product, also enjoys a ready market in flavour-manufacturing and Amyl Alcohol manufacturing industry which is used in milk-chilling plants.

HIGHLIGHTS OF THE ISSUE

- ◆ Equity participation by Karnataka State Industrial Investment & Development Corporation Limited (KSIIDC) ◆ Close proximity to source of raw material ◆ Low gestation period - the plant is scheduled to go into commercial production by August, 1993 ◆ Co-generation of power upto 100% of the requirement ◆ Easy liquidity. Listing sought at Hyderabad, Bangalore and Bombay Stock Exchanges ◆ Tax benefits to investors under section 80L and 80M of I.T. Act.

Issue Opens On : **17th September, 1993.**

If the Company does not receive minimum subscription amount of 90% of the issue, including devolvement of underwriters, within 120 days from the date of opening of the issue, the Company will refund entire subscription amount within 120 days, with interest not exceeding @ 15% p.a. or delay beyond 78 days from the date of closure of the issue as per sec. 73 of the Companies Act 1956.

Investors may note that in case of oversubscription a SEBI nominated public representative shall be associated in the process of finalisation of basis of allotment.

RISK FACTORS AND MANAGEMENT PERCEPTION OF THE RISKS

- ◆ Firm tie up of raw material has not been made. However, there are a number of sugar factories near by to the plant and the Company does not foresee any problem in procuring the required raw material ◆ Cost and time overruns of the project, if any, may affect the profitability of the Company. However, the project is in an advanced stage of implementation, as such the cost and time overrun will be minimal ◆ The project is being promoted by first generation entrepreneurs. However, the entrepreneurs have experience in this line of activity ◆ The company has applied for the working capital requirement with State Bank of Hyderabad and awaits necessary sanction.

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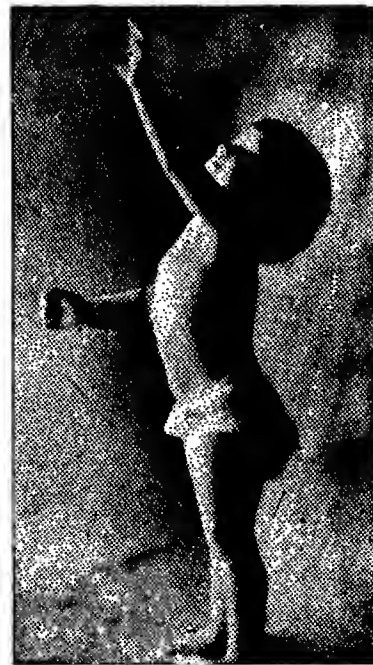
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WEEKLY

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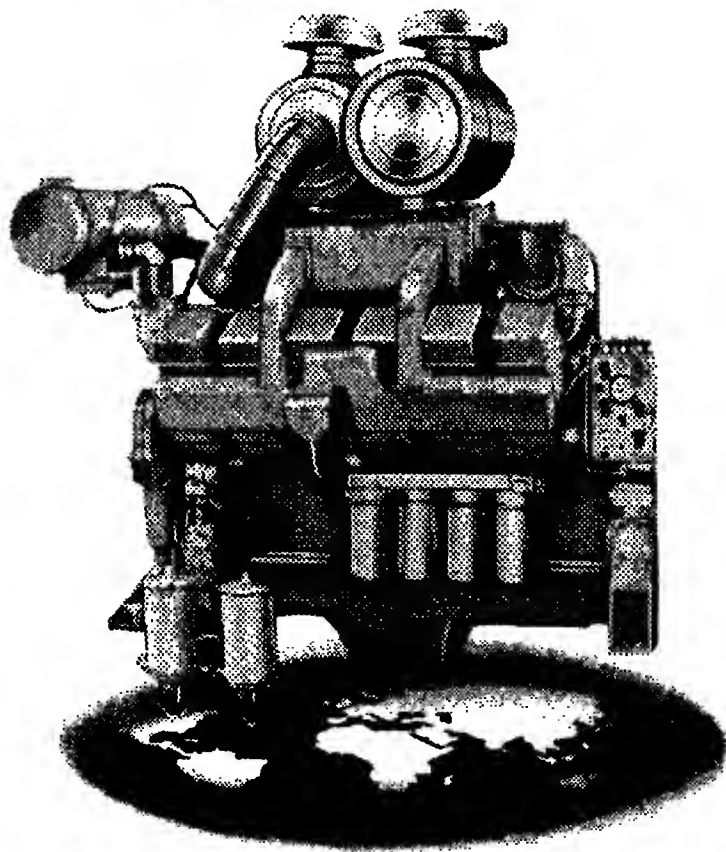
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Structural Adjustment and Employment

Projections of sectoral and total employment on alternative assumptions of sectoral growth rates under the structural adjustment programme suggest a worsening of the employment situation through the decade of the 90s at least. Rise in unemployment is thus not going to be a transitory phenomenon as the advocates of structural adjustment argue and, needless to say, the situation will be even worse if the expected acceleration in GDP growth fails to materialise.

1989

Squandering a Heritage

While the leaders of the Commonwealth of Independent States (CIS) have, since the beginning of this year, been reiterating their resolve to take measures for mutual co-operation and creation of a common economic space, they have made very little effort to harmonise their economic policies which, adopted under domestic and international economic and political compulsions, have actually contributed to the fragmentation of the inherited common economic space. Some alternative scenarios of the future economic evolution of the CIS.

1998

Man-made Drought

While drought is invariably sought to be linked to inadequacy of rainfall, the part played by what has happened or been done to storage and retention mechanisms, processes and facilities needs to be noted. These have been destroyed, neglected, mismanaged or developed in a skewed way over the years, creating perpetual drought conditions of varied intensity in various pockets, whether total precipitation of rain is normal or not. The situation in Andhra Pradesh.

1970

Not By Free Trade

Looking at the historical record of today's developed countries, a broad generalisation can be made: all of them had restrictive trade regimes in place during the period when they were experiencing trend acceleration in economic growth.

2012

After Apartheid

Is the traditional bond between racism and capitalism getting diluted in the rapidly changing social context of South Africa? If it is, what might be the operational parameters of capitalism in a future, non-racial South Africa?

1980

Language Newspapers

Indian language newspapers will continue to expand and play a key role in spreading consumerist messages beyond the large towns, but the diversity and competition that currently characterise newspapers in most of the language regions are likely to be obliterated over the next decade.

2004

Market-Men

In the 50s, intellectuals, politicians and even diehard bureaucrats had a vision about the economy and the country which they shared ardently. That is missing now and this is the tragedy of the today's economic reforms and reformers.

1967

Measuring Inflation

A review of price movements in India since 1950-51 brings out that the average annual inflation rate has been the same, whether measured by the wholesale price index, the consumer price index or the GDP deflator; also that 30 out of the 42 years experienced single-digit inflation. Special statistical section on inflation and its measurement.

2015

Party Matters

Buddhadev Bhattacharya's departure from the West Bengal Left Front cabinet is a milestone in the evolution of the CPI(M)'s inner-party modalities.

1973

Past and Present

The past sometimes lives into the present, sometimes it is transmuted and sometimes disrupted and recreated. The fifth international conference on Maharashtra explored the continuities and discontinuities in Maharashtra's socio-cultural life.

1977

Shrinking Space

The assaults on the traditional fisherfolk's shrinking space in the marine sector are mounting in Kerala.

1974

LETTERS TO EDITOR

More Lessons of Ayodhya

INCREASINGLY, the message progressive movements, whatever the focus of their mobilisation, have for all progressives appears to be, 'you may support us, but you may not say a critical word about how we function or our actions'. Gautam Navlakha (September 11) expends so much emotion on the attack on the exhibition put up by Sahmat and the state's response but can only, in a condescending fashion, acknowledge the issues which ought to be discussed within Sahmat.

There can be no second opinion about condemning either the attack on the Sahmat exhibition in Ayodhya, or the state's fence-sitting in the matter. However, it seems to me that Sahmat's own response to the entire episode is a most telling comment. Sahmat and its supporters seem to have been completely unprepared for such opposition. Surely, given the prevailing atmosphere and the nature of the panel such violence should have been expected, whatever Sahmat's intention? And certainly, given its activities at other levels, Sahmat cannot have been unaware of the need to know the adversary? Then again to have brushed aside the criticism that the panel may have "hurt the sentiment of ordinary people" speaks of a certain intolerance. The issue is not whether it trampled on widely held beliefs, but that it did not consider these feelings important, or at least had given little thought to the matter. This speaks of political naivete or, worse, a disregard for the opinions of those at whom such efforts are directed. Ask any women's group or people's science group and they will tell you how much time is 'wasted' on trying to assess the impact of material being exhibited on the people. This has to be done even more painstakingly on issues such as communalism, because we have to acknowledge that there may be a wide gulf between the feelings, opinions and values being projected by progressive elements and those of the people. Unless we take cognisance of that and give recognition to it in our efforts, there will be others who will capitalise on this gulf. A case in point is Sahmat's attempt to offer classical fare: certainly there ought to be no bar on who should participate in or enjoy the classical arts, but does it not make more sense in a campaign to promote plurality to use forms which are closer to the people?

I sincerely hope that Sahmat and others will use public forums to engage in discussion of the issues that the Ayodhya incident has thrown up and to make public the debates within the group. Our greatest

strength lies in underlining democratic processes of opinion-formation and mobilisation.

Bombay

K PRAKASH

Detention of Human Rights Activist

R R SIVALINGAM was detained by the state under the powers conferred by Section 3(2)(e) of the Foreigners Act 1946 "for regulating the continued presence of the foreigners" in the Special Camp at Chengalpattu, Tamil Nadu, since August 6, 1993. This means detention for an indefinite period and even the threat of possible deportation to Sri Lanka. He has also been kept in solitary confinement.

Sivalingam is a holder of Sri Lankan passport and citizenship and of Indian origin. An MA from Madras Christian College, LLB and an educationist, he took premature retirement as Director of Education, under the ministry of education in Sri Lanka to work for the rights of Tamils of Indian origin in Sri Lanka. He was also a practising lawyer and attorney-at-law in the Supreme Court of Sri Lanka and founded such organisations as Indian Community Council and Indian Cultural Association and was a member of the Board of Trustees of Estate Education Trust managed by the Indian High Commission in Sri Lanka.

Ever since his return to India in August 1983 he has tirelessly continued to work for the human rights of Indian Tamils repatriated from Sri Lanka and also other deprived sections of the society here. He was involved in the founding and setting up of the Indo-Sri Lankan Development Trust for rehabilitation of Sri Lankan repatriates, Repatriates Rehabilitation Research and Information Centre, Kotagiri Institute of Non-Formal Education for Vocational Training, Malayala Makkal

Maruvazhvu Manram, etc. He is also the president of the National Conference of Repatriates, the president of Democratic Workers Union, the convenor of Coimbatore Human Rights Forum affiliated to PUCL, active member of FIAN—International, an international human rights organisation, etc, and has been taking up issues of human rights of the dalits, adivasis, women, etc, besides the repatriates especially in Nilgiris and Coimbatore districts of Tamil Nadu. We believe that it is precisely his involvement in human rights issues of the oppressed which has prompted the state to detain him and to harass him.

Sivalingam's residence permit to stay in India had been extended since his arrival in 1983 on a routine basis up to December 31, 92. His application for further extension of the period had been deliberately kept pending to create an excuse to harass him. His application for Indian citizenship in 1989 after the mandatory period of residence in India of five years (which was vouched by no less a person than C Subramaniam, former union minister and governor of Maharashtra) has also been kept pending. Moreover, his aged mother (his father is dead) and his wife are Indian citizens. He is over 60 years and his health frail, being afflicted by ischaemic heart disease, hypertension and diabetes. We fear that his continued detention and solitary confinement would have dangerous implication on his health.

We appeal to readers to send telegrams/ letters of protest condemning the government action in detaining Sivalingam and demanding his immediate release to the president and prime minister and the governor and chief minister of Tamil Nadu.

V P SARATHY (CHAIRMAN)

C R BIJOY (MEMBER)

Coimbatore Human Rights Forum,
Coimbatore.

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Monkeying with Rural Credit

THE government and the Reserve Bank of India have decided to permit commercial banks to close down loss-making rural branches. It is deplorable that decisions such as this one which have profound implications for the rural economy are being taken in a most casual and piecemeal manner. It may be pointed out that what has been done is only to give banks the option so as to enable them to rationalise their branch network and improve their profitability. But what kind of signals does such a decision provide to the banking and financial system? As it is, under the influence of the new economic policy and the constant harping on profitability, banks have begun to look down upon the social banking aspects of their responsibilities.

For the past three years, when there has been so much talk of financial sector reform, government has been promising a scheme to revamp the rural credit delivery system but nothing has been actually initiated so far. In fact, the Reserve Bank and the government appear to be losing interest in the matter. The RBI's annual report for 1991-92 had said that the government was considering a proposal to set up a National Rural Bank of India. The question of whether all the regional rural banks (RRBs) should be merged into one national level bank or into four or five zonal banks or whether the Narasimham Committee's suggestion of merging the RRBs into rural subsidiaries of banks (along with some rural branches of banks) should be accepted deserved urgent attention, according to the report. The 'mantra' of revamping the rural credit system had been invoked also in the RBI's annual report for 1990-91. But in its latest annual report, for 1992-93, the Reserve Bank shows no such concern for strengthening the institutional structure of rural credit. Instead its focus has shifted to provision of more market-oriented financial instruments and reform of interest rates. The Reserve Bank's obsession with the rationalisation of banks' lending rates and with moving to a two-slab structure consisting of one concessional rate and with other rates freely determined by the market has begun to cloud its judgment to such an extent that the latest annual report does not refer to the question of institutional reform at all. The Bank now argues that the objective should be to increase the flow of credit to the rural sector, even if at higher rates of interest. And what is the institutional mechanism for making this possible? Presumably banks are to lend to so-called self-help groups, NGOs and other intermediaries who in turn would help to identify and meet the credit requirements of the rural poor. Further, commercial banks, regional rural banks and co-operatives have been advised to "consider appointing 'recovery facilitators', drawn locally to help improve loan collections". At this rate, the banking system will nurture a class of thugs resorting to extortionate methods to recover bank

loans from the poor. Clearly, the RBI has learnt a thing or two from Citibank.

The permission now granted to close so-called loss-making branches falls into the same category of thoughtless decisions. In the first place, the building up of the present institutional credit structure in the rural areas has been an arduous task. The supply-leading approach to the promotion of a vast network of bank branches has undoubtedly stimulated significant banking activity in the rural areas and generated expectations amongst the rural population of availability of institutional sources for borrowing in times of need in place of money-lenders and other informal sources. The Reserve Bank's service area approach to rural lending, in operation since April 1989, expects individual bank branches to serve the credit needs of 15 to 25 villages each. After carrying out surveys and preparing village-wise economic profiles, bank branches have been preparing credit plans for the villages in their service areas. Block-level bankers' committees have been constituted for co-ordination among credit institutions and developmental agencies and for monitoring the implementation of the credit plans. With a view to improving the quality of the credit plans and effectively monitoring them, NABARD has been setting up offices in all districts in the country in a phased manner. As late as in November 1992, the RBI had issued fresh guidelines to rectify the identified deficiencies in the implementation of the service area approach. In fact, one of the major problems has been that 15 to 25 villages are far too many for a bank branch to service. In other words, the existing network of 45,000 branches actually needs to be further expanded to service the 5.50 lakh villages. Considering the extent of continued dependence of the rural population on money-lenders and non-institutional sources, the business potential of the rural areas is indeed vast, provided the banks adopt appropriate methods and procedures for rural lending. In any case, any reorganisation of the rural credit delivery system has to be built on the banks' branch network already in place; its decimation and replacement by something else will involve enormous avoidable social cost.

Beyond a point, preoccupation with the bottomline, when long-term promotional and developmental activities are involved, is dubious. In the first place, a professional examination of the claim by banks of losses is necessary, for it has been found that in most cases a preponderant part of the losses is attributable to urban and metropolitan branches. Besides, any ratio of branch profitability is highly sensitive to the methodology adopted for transfer pricing. A recent study published in this journal (May 1, 1993) came to this conclusion: "after making adjustments for the major distortions, the profit ratio of rural branches at 2.56 per cent was

below that of metro branches but was above that of semi-urban and urban branches as well as the entire branch network of the bank. This shows that in terms of profitability, the rural branches are not a liability to the bank. Just as mismanagement is the major cause of industrial sickness, inadequate management competence in individual banks is a major cause of the non-viability of rural branches of many public sector banks. In all possibility, in banks with low profitability of rural branches, the situation may not be different for branches in other population groups also."

Notwithstanding this factual position, the banking bureaucracy continues to clamour for the closing down of branches in rural areas because posting to a rural branch is considered a hardship posting. In fact, there is already evidence that the support-base of rural branches is being curtailed by the public sector banks. One of the major handicaps of rural branches has been the inadequacy of staff posted to them in comparison with urban and metropolitan branches. This problem seems to be getting worse. Thus when some rationalisation took place in bank staff postings in 1990-91, there was a substantial reduction in staff posted to rural and semi-urban areas whereas that posted to urban and metropolitan areas continued to rise, though the latter branches are generally found to be over-staffed. Between March 1990 and March 1991, the number of staff posted to rural branches fell from 208,897 to 207,237 and those posted to semi-urban branches from 221,753 to 218,213 whereas the number of those posted to urban and metropolitan centres increased from 549,778 to 550,247. It is interesting that there was no decline in staff in rural branches in the south, where there is generally a continuum in rural-urban characteristics; in fact, the number of staff posted to rural branches in the south increased from 50,656 to 51,089 during the above-mentioned period. On the other hand, a noticeable decline has occurred in the central region consisting of MP and UP (from 45,599 to 44,746).

For strengthening the rural credit delivery system it is essential that commercial banks, which have the necessary resources, shoulder full responsibility for rural banking, strive for expanding business there and, till their rural branches achieve financial viability, absorb the additional cost in their operations elsewhere. This is certainly not too much to ask, as the statutory liquidity ratio (SLR) and cash reserve ratio (CRR) applicable to banks are being rapidly lowered and the yield rates on banks' investments

are going up. Any hare-brained attempt to separate rural banking from high-street banking will leave the former inherently uneconomic and will be doomed to failure.

RESERVATION FOR OBCs

Political Postures

A correspondent writes:

THE announcement regarding the reservation of 27 per cent of the government jobs for those members of the OBCs who do not form part of the so-called creamy layer has obviously been made with an eye on the forthcoming assembly elections in the four former BJP-ruled states. The calculation seems to be that the reservation, when it has come into effect, would deprive the traditional votaries of these proposals—mainly the various factions of the Janata Dal, the BJP, the BSP and the newly-formed Samajwadi Party of Mulayam Singh Yadav—of their constituencies among the OBCs, thereby benefiting the Congress (I). This, however, is not the only significance of this announcement. Like in the case of the earlier reservation of jobs for the scheduled castes and scheduled tribes, the present reservation is likely to have some long-term social and political effects. The row that has already started in Bihar over these proposals also suggests that their implementation is going to be rather problematic.

The proposals, if implemented, are likely to really transform the lives of a number of people belonging to the OBCs. As has been widely accepted, not all members of the OBCs deserve the benefit of reservation in jobs. This remains true even after the 'creamy layer' among them has been skimmed off. The experience of the implementation of the reservation in the case of the scheduled castes and scheduled tribes also shows that a large percentage of the benefit is cornered by those who are relatively well-off and well-informed of their rights. Yet we also know that a not insignificant number of the scheduled caste and scheduled tribe poor who now earn a relatively respectable living and enjoy a more dignified social standing owe these changes in their lives precisely to this benefit. This is confirmed by the fact that the periodic talk about ending this benefit has always been resisted not only by the well-off but also the not-so-well-off among these particular sections of the society. The present proposals may, in like fashion, positively affect the lives of a number of the OBC poor.

On the other hand, the resistance to the idea of an abrogation of the reservation

in the case of the scheduled castes and scheduled tribes shows that when the criterion for deciding the beneficiaries of affirmative action is purely social, it is likely to impel the targeted communities to develop a vested interest in keeping alive their particular social identities. The emergence of this interest, in turn, may provide them with a material basis for pursuing an exclusivist politics—a development which may have far-reaching historical consequences. There is little reason to believe that the implementation of the proposals under discussion here would not have similar effects concerning the OBCs.

This brings us to the crux of the problem so far as the criteria for deciding the beneficiaries of the affirmative action are concerned: while the criterion for extending the reservation in jobs is social, the one for denying it is both social and economic. This particular method of applying the criteria works both ways: by excluding the 'creamy layer' from amongst the OBCs on economic basis, it stands to benefit the poor among the OBCs; but by excluding the poor from amongst the upper castes on social basis, it condemns a not-so-small section of society to perpetual poverty. In view of this fact, the demand for the extension of the benefit of the reservation in jobs also on economic basis needs to be considered!

The problems regarding the implementation of these proposals are likely to stem mainly from political rather than procedural matters, and these are likely to be created by the Janata Dal headed by V P Singh. Procedurally, the Prasad committee, which was constituted to identify the 'creamy layer' among the OBCs, has already prepared a list of 1,200 castes which would benefit by this decision. This list, which contains the names of castes common to the lists of OBCs prepared in respect of 14 states which had no notified lists of OBCs of their own for reservation in state services, has been accepted by the government and so far no state government, except that of Bihar, has objected to this list. The objection by the government of Bihar, or rather the Janata Dal heading this government, however, is political rather than procedural, for, according to Laloo Prasad Yadav, the chief minister, "there is no 'creamy layer' among the OBCs in Bihar". The Janata Dal at the national level has been more specific and it has demanded only the inclusion, in the list of beneficiaries, of all farmers possessing land below the ceiling level rather than only those who possess it up to 85 per cent of the statutory limit. These postures, which are blatantly political, should not normally be taken very seriously, for the

party striking them has a limited political and geographical influence. They nevertheless need to be taken note of for they have the potential of delaying the implementation of the present proposals.

EXCHANGE RESERVES

The Flip Side

THE rise in the country's foreign currency assets (including SDRs) to \$ 7,247 million as on September 3 is impressive and the Reserve Bank and the government have been patting themselves on their backs over the success of the new policies of aggressive export-orientation and import liberalisation. Apart from the increase in foreign currency assets of about \$ 795 million since March 31, on top of sizeable accruals in the two previous financial years, there has been some improvement in the composition of the assets in that the more volatile components, such as swaps and funds under the foreign currency (banks and others) deposits scheme, have declined substantially since the end of March. The bolstering of reserves has come about as a result of the RBI buying as much as \$ 3.6 billion worth of gross reserves from the market, while selling only \$ 1.3 billion, thus achieving a net purchase of \$ 2.3 billion. With net purchases of this order by the RBI, the exchange rate of the rupee has been kept impressively stable since the exchange rate unification in March. The government's satisfaction in this respect is supported by the performance of exports and reduction in the merchandise deficit. During April-July 1993, exports rose by 27.2 per cent to \$ 6,916 million from \$ 5,438 million in the corresponding months of the previous year. Imports in this April-July registered an absolute decline of 2.7 per cent from \$ 7,559 million to \$ 7,354 million, thus narrowing the trade deficit sharply to \$ 438 million from \$ 2,122 million in the same period of last year.

While the above picture of the balance of payments is factually accurate, the government's exuberance over it needs to be tempered for a number of reasons. First, while the volatile components of the foreign currency assets have indeed been reduced, there is no gainsaying that the bulk of the reserves build-up has been achieved with borrowed funds. In 1992-93 (April-March), all special factors together contributed \$ 2,514 million against the rise in reserves of \$ 731 million (including SDRs). In other words, excluding the special factors, there was a net drawal from reserves to the tune of \$ 1,783

million in 1992-93. Special factors had similarly contributed \$ 1,856 million in 1991-92. And of the increase of \$ 795 million in reserves since this March, \$ 325 million are attributable to the final instalment of the IMF's stand-by credit. We have no information if there have been other special factors contributing to the reserve expansion since March. Since the beginning of the current phase of borrowings from the IMF in July-September 1990, the total of such borrowings has been about \$ 5.8 billion.

Secondly, there is no evidence that the excess dollars sold in the market to the RBI are attributable to any turnaround on the invisible account which had deteriorated in 1992-93 with an estimated net outflow of about \$ 815 million. This was the result of subdued tourist earnings, stagnation in private transfer receipts, large interest payments and growing outward remittances on account of royalty, technical fees, etc. Apart from these factors, financing of gold and silver imports is bound to affect private transfer receipts in the period ahead. (Gold and silver imports since such imports were legally permitted may have already crossed \$ 2 billion.)

Thirdly, there is another side to the faster growth of exports and reduction in the trade deficit. The increase of 27 per cent in exports during April-July this year has come after sluggish export performance in the last two years. If exports of \$ 6,916 million during April-July 1993 are set against those of \$ 5,772 million three years ago, during April-July 1990, the annual percentage increase works out to only about 7 per cent. Thus the 27 per cent rise in exports so far this year is really over a modest base.

Fourthly, the commerce minister has admitted that the recent impressive export growth has been made possible by a phenomenal rise in exports of agro-based products and plantation crops, which have gone up by 59 per cent and 76 per cent respectively during April-May 1993. If primary goods are to be the mainstay of export growth under the new policies this has serious long-term implications. Even in periods of sluggish export growth in the 1970s and early 1980s, there was a significant shift in favour of relatively sophisticated manufactured goods like machinery and instruments, electronic goods and computer software. While a detailed comment would have to await fuller commodity-wise export data, available indications do not suggest that the base for sustained export growth is being laid.

Lastly, it is the depressed import demand that, above all, explains the excess of dollars in the domestic foreign exchange market. Imports have been sluggish for the third year in succession, with the April-July 1993 level of \$ 7,354 million just 4 per cent above that three years ago in April-July 1990 (\$ 7,076 million). If a normal 12 per cent per annum rate of increase is applied over the import level of \$ 24.1 billion in 1990-91, imports in 1993-94 should have been close to \$ 34 billion, whereas actually they are unlikely to exceed \$ 23 to 24 billion. These stray figures suggest how far the depressed import demand as a result of the industrial recession has been responsible for the availability of dollars in the exchange market and for the so-called stability of the exchange rate for the rupee. No doubt, to an extent the reduction in the merchandise trade deficit may be due to the tapering off of under-invoicing of exports and over-invoicing of imports. This is also why the export figures look bright and the import figures depressed, but this development is unlikely to overturn the above argument. Added to these, as the Reserve Bank's latest annual report has recognised, even if there is some improvement in the current account deficit in the medium-term, this could be more than offset by the rise in debt-servicing requirements. India's all-inclusive external debt has already crossed \$ 85 billion and the debt-service burden is projected to touch \$ 8 to \$ 9 billion annually. Repayments to the IMF will be very large during 1994-95 to 1996-97, hitting their peak in 1995-96, and redemption of the India Development Bonds with compounded interest will be concentrated in 1996-97. Potentially, the most damaging impact on balance of payments may come from the external sector policies which allow for liberal imports, including of gold and silver. What is more, unlike in the past, the country may face a large import bill which may not only have less relevance for productive activities but may actually hinder the expansion of domestic industrial capacity and output.

PAKISTAN

Pre-empting an Elected Government

THE recent spate of spectacular decisions taken by the caretaker government of Moeen Qureshi are in the nature of a levellers in Pakistani politics. On the other hand, the fact that these reforms had to

be set in motion by a non-elected government, is not a happy trend.

The most important part of Qureshi's economic package is its proclaimed attempt to enlarge the tax-base and ensure that the state's resources are not frittered away for the creation of private fortunes. The package thus envisages a wealth tax on agricultural holdings, a controversial move in the context of the fact that 10-15 per cent of the total land owned privately is held by some 0.1 per cent of large landowners. A committee has also been set up to look into the issue of improving the base of the urban holdings tax and suggesting reforms directed at checking tax evasion. Together with this the government has also debarred those who have not repaid loans from banks and other financial institutions or have had them written off from contesting in the October elections. A third move of the interim government has been to debar 15 known 'drug lords' from Baluchistan and North-West Frontier Provinces (NWFP) from contesting the elections and amending the Dangerous Drug Act, 1930 to make it applicable to these two semi-autonomous tribal regions.

Taken together these measures affect all the influential sections who have, ever since independence, run the government, one way or another. The agriculture tax, for instance, will affect all political parties, both because of the narrow feudal base from which they draw their leaders, as also because they depend upon votes which are controlled by the feudal landlords. Many of these feudal families have had a more or less permanent representation in the provincial and federal governments and legislatures. This is true also of the tribal regions where tribal chiefs, who are big landlords, direct and control politics. Not surprisingly all parties are unhappy about some of these reforms, although they have expressed it differently. The Pakistan People's Party chief has said that while caretakers were justified in taking measures to avert a 'financial disaster', she had reservations about measures such as the agriculture tax. Nawaz Sharif's comment has been that a caretaker government had no mandate to take these decisions.

Similarly, the list of those debarred from contesting elections includes leaders and past legislators of all parties, the sole and surprising exception being Nawaz Sharif (and thereby hangs a tale). Repayments amounting to Rs 62 billion are due from former PPP ministers and legislators as well as PML luminaries and one prospective candidate for the presidential elections, Gohar Ayub Khan. It also touches influential industrial and business families such as the Gujarat

Chaudhuries which includes former interior minister Chaudhury Shujaat Hussain and Chaudhury Parvez Elahi, another former minister, who owe Rs 30 million to three banks.

And lastly, the drug barons. It has been known that drug money has been openly used to finance election campaigns, apart from the fact of several drug-traffickers having been legislators for many terms (among them one of the most wanted drug barons who was tried and convicted in absentia by a military court but has never even been arrested). Drugs are big business in these parts of the country. It is estimated that about 200 metric tonnes of opium are produced in the country with some \$ 30 billion worth drugs being manufactured in Pakistan and Afghanistan.

Given all this, the elections in October will be different from those in the past. The catch however is that the Pakistani polity is ill-prepared to seize this opportunity. This could have happened only if such change had come through public articulation of demands, even in the limited modes of parliamentary politics, and not under the tutelage of the IMF. As things are, old loyalties and networks will still hold sway.

What really is the purpose of these measures? According to Qureshi, he was just setting the tabs for future regimes. If this is indeed so, then it is surprising that there should have been so little in terms of institutionalising democratic practices. His reforms, for instance, say nothing about land reforms or any measure to loosen the feudal structure. The revived privatisation programme will impoverish many. Nor is there much by way of strengthening the 'safety net'. The reforms include an open market for fertilisers which had been subsidised so far and which together with higher procurement prices will increase food prices all round. The calculations appear to be something like this: An elected government would have had to consider people's welfare to the extent that it would have an impact on electoral chances while implementing reforms of this sort. But now that they are in place, it can only withdraw them at the risk of openly challenging the IMF. Thus no third world government least of all one in Pakistan can afford to do.

It is disheartening that a self-professed champion of democracy such as the PPP should have had little to say on the lack of mandate for undertaking large-scale reforms. And this is the issue which should have been the focus of long-term mobilisation of people for reviving the sagging democratic spirit of the country. Clearly, the PPP has chosen to be in the good books of the army, the IMF's handmaiden in this instance, just in case.

TWENTY YEARS AGO

EPW, September 15, 1973

As we go to press, stray snipers are still at work in Santiago and its suburbs, protesting against the army coup. But this is a mere splutter, and unlikely to last beyond a couple of days. Salvador Allende's violent death marks the end of a major phase in Chile. The democratic interlude is for the present over; the country in which the army has generally had a tradition of loyalty to the government will now join the Latin America tradition of being ruled by brass hats. Allende had been under continuous siege by the propertied classes for the past several months. Allende's victory in the presidential election three years ago had been a paper-thin one. But even were it otherwise, the denouement could hardly have been different. Neither the multinational corporations nor the local landowning and industrial interests were ready to accept the possibility that the rules of parliamentary democracy could militate against their interests in ushering in change, or that it could be the legitimate function of government to adopt measures eroding the privileges and prerogatives of the rural rich and the urban bourgeoisie. And, since petty bourgeois prejudices can be easily played upon when the working class appears to be making advances, the major vested interests in Chile were able, over the last two years, to swing to their side sizeable groups of the middle class too. The left in Chile cannot be wished away, though immediately it may be in a state of disarray. During the first nine months of the Popular Unity government from November 1970 to July 1971, it looked like the popular front was well set on its way to transforming the economic structure of the country—the huge American-owned mines were nationalised, banks were taken over by the state, three-and-a-half million acres of land were expropriated from big estate-owners and thousands of poor families settled on them. The municipal elections of April 1971 reflected the growing mass appeal of the government of Popular Unity. But once these radical measures had been carried out, the government began to take recourse to legal and bureaucratic channels in order to avoid taking necessary measures like taking over important industries, other than the mines, and controlling the retail trade to combat the runaway inflation. The appointment of army officers to the cabinet further confused the masses who had been previously told that the army was the main danger to the popular front.

Foreign Investment: Growing Kitty

Jairaj Kapadia

SOME of the latest proposals—23 in all—of foreign investment in companies cleared by the committee headed by the union finance minister, Manmohan Singh, are eye-catching inasmuch as they are illustrative of the government's liberal attitude in encouraging direct foreign investment in the country. With the latest clearances, the score of foreign investment sanctioned now amounts to around Rs 2,400 crore. There are still more proposals for the committee to address itself to.

Among the latest sanctions there is one by the UK parent of Castrol India to hike its shareholding in the Indian company with an investment of Rs 40 crore in the proposed rights issue. Another approved proposal is that of a joint venture between Crompton Greaves and Commonwealth Development Corporation with G B Glass Lighting, UK.

A project, as import substitution, by C G Glass is for establishing a unit in Gujarat for manufacture of glass as well as tubular shells and lead glass tubing at an estimated cost of Rs 75 crore. A proposal by Dun and Bradstreet Corporation of the US, which is one of the world's leading business information service companies, to set up a fully-owned subsidiary in India has passed the committee's clearance. The project is to generate for the country exports worth \$ 40 million in electronic software and at the same time open up prospects in modern systems technology, expertise and global networking.

20th Century Finance Corporation had put up a proposal to set up an asset management company in collaboration with Kemper Corporation of the US. This has been cleared by the committee. The US firm is experienced in the field of mutual funds. Under the proposal, it will be investing Rs 1.67 crore for a 33.32 per cent stake in the asset management company of 20th Century Finance.

Money Care, specialising in portfolio management, has been permitted to expand its activities and acquire membership in a major stock exchange in India. The proposed expansion is to entail investment of Rs 4.5 crore of which Rs 1.2 crore is to be contributed by non-resident Indians. Meanwhile, CRB Capital Markets has been sanctioned its proposal for NRI equity participation as well as for accepting fixed deposits from the NRIs for diversifying its activities.

TINPLATE COMPANY

Hurt by Imports

The 1992-93 financial results of Tinplate Company of India have put the company in a financial straitjacket, after sales registered a rise but profits plummeted. Although the dividend has been maintained, the setback in profits has caused financial ratios to decline with the return on equity reduced by nearly half from 16.04 per cent to 8.70 per cent and EPS dropping by nearly Rs 1.80 from Rs 3.98 to Rs 2.19. Such a situation will pre-empt for Tinplate the prospects of raising any further share capital for the present, and particularly so after the company made a rights issue of fully convertible debentures worth Rs 77 crore during 1992-93 and which awaits conversion into equity shares. Indeed, in order to finance ongoing expansion and diversification, the company proposes to raise Rs 135.30 crore by way of institutional loans, a part of it in foreign currency, while it is to place privately Rs 5 crore of non-convertible debentures with the Army Group Insurance Fund and Naval Group Insurance Fund.

Hope meanwhile is pinned on a 'strategic business plan' which was finalised and adopted

during the year. Under the plan, operations of the 90,000 tonnes per annum electrolytic tinplate plant, hitherto affected by raw material restrictions and high landed cost of tin mill black plate (TMBP), are to be integrated with a captive cold rolling mill (CRM) project, the strength of which lies in its synergy with phase III of Tata Steel's ongoing modernisation and expansion programme. Tinplate is an associate company of Tata Steel.

The mill will produce various grades of hot rolled coils, including TMBP grade coils, which will be further reduced through cold reduction at the company's cold rolling mill now under installation to make TMBP coils. For this, the company has established technical collaboration with SMS Schloeman Siemag, Germany, which has also supplied the technology for Tata Steel's hot strip mill. The CRM project is progressing well and the new mill is expected to be commissioned in the last quarter of 1994-95.

The 'strategic business plan' also envisages substantial value addition to the company's product lines through can conversion so as to meet the packaging requirements of user industries

more substantially. Making a small beginning in 1991-92, during 1992-93 the company emerged as the largest can supplier in India with a sale of 232.04 million cans (10,000 tonnes approximately), a quantum jump from the previous year's figure of 55.65 million cans. The company plans to enhance conversion further to a level of 15,000 tonnes in 1993-94.

With the import of TMBP placed under OGL, the company could contract for supplies with reputed parties abroad at prices 8 to 10 per cent lower compared with the previous year. But while this was done in anticipation of a pick-up in market demand, the same did not materialise, and against an estimated 60,000 tonnes the company could sell only 46,000 tonnes of tinplate.

The position was accentuated by import of tinplate also being put under OGL and even waste material coming in from abroad at much lower prices for use in the country. This is primarily the reason for the company's suffering a setback in profits, as the directors point out in their report that the depressed market conditions resulted in a build-up of inventory with an increase in working capital requirements and consequently in interest charges.

But now that the customs duty on inputs, including the duty applicable to TMBP coils, has been reduced, indigenous tinplate is become more competitive than the imported material.

The Week's Companies

(Rs lakh)

Financial Indicators	Tinplate Co of India		Samtel (India)		Midland Rubber and Products	
	March 1993	March 1992	March 1993	March 1992	March 1993	March 1992
<i>Income/expenses/profits</i>						
Net sales	25573	16700	7517	6772	726	1055
Excise duty	3551	1294	1397	1286	6	8
Other income	832	321	1006	909	18	27
Increase (decrease) in year-end finished stock	1852	1017	105	(225)	(14)	(85)
Raw materials consumed	17265	9448	6554	5174	61	220
Power and fuel	1836	1331	267	204	32	36
Other manufacturing expenses	2013	1748	224	157	88	104
Labour cost	3015	2868	318	266	149	337
Other expenses	2911	1302	654	529	112	136
Operating profits	1217	1341	611	1131	88	165
Interest charges	650	419	449	482	48	31
Gross profits	567	902	162	649	40	134
Depreciation	345	299	108	169	12	11
Profits before tax	222	603	54	480	28	123
Tax provision	—	200	—	—	17	65
Profits after tax	222	403	54	480	11	58
Dividends	182	182	40	75	9*	13*
<i>Liabilities/assets</i>						
Paid up capital	1014	1014	499	499	58*	58**
Reserves and surplus	1538	1498	842	828	266	257
Long term loans	10170	1819	820	1022	137	105
Short term loans	4435	852	1281	1129	87	75
Other liabilities	6967	7202	1446	947	256	257
Gross fixed assets	9955	6407	2228	2226	402	373
Accumulated depreciation	3286	2942	1070	975	169	159
Inventories	5973	2570	771	562	137	122
Of which finished goods	3501	1649	286	181	40	54
Receivables	6108	2703	1119	836	56	68
Loans and advances	1293	1038	816	1062	242	265
Cash and bank balances	2335	759	83	49	44	21
Investments	8	8	949	614	85	54
Other assets	1739	1842	3	1	7	7
Total liabilities/assets	24124	12386	4888	4424	804	752
<i>Key financial ratios</i>						
Turnover ratio	1.06	1.35	1.54	1.53	0.90	1.40
Return on sales %	2.21	5.40	2.16	9.58	5.51	12.70
Return on investment %	2.35	7.28	3.31	14.67	4.98	17.82
Return on equity (%)	8.70	16.04	4.03	36.17	3.41	18.41
Earning per share	2.19	3.98	1.09	9.61	2.72	14.32
(Dividend 1%)	18	18	8	15	20	30
Book value per share (Rs)	25.22	24.83	26.87	26.57	79.96	37.79
Current market price	47.40	—	30	—	40	—
P/E ratio	21.69	—	27.52	—	14.71	—

Rs 1.10 lakh preference dividend ** Rs 17.20 lakh preference share capital

This will place the company in an advantageous position. Another policy measure to have favourably affected marketability of indigenous tinplate is the withdrawal of GATI concessions from March 1, 1993. Following these developments the current year's results are expected to be better.

Exports during 1992-93 under Duty Exemption Entitlement Certificate scheme amounted to Rs 1,150 lakh. The company has embarked on its cold rolling mill project in order to be self-sufficient in the requirement of raw material for the ETP plant. The issue of fully convertible debentures made during the years is for financing the project.

SAMEL (INDIA)

Demand Recession

In order to beat the recession in domestic demand for B and W TV sets, Samel (India) has turned attention to exports. But this has remained a poor consolation for the company, which earlier thrived on local demand. "With vigorous and consistent efforts", as the directors state in their report, export sales by the company during the year to March 31, 1993, recorded an increase from Rs 7.46 crore to Rs 14.04 crore. Domestic demand also revived slightly. But it remained extremely competitive, putting "enormous pressure on the margin of profit". Although the company was able to improve its sales from Rs 89.67 crore to Rs 99.20 crore, it suffered a setback in profits and was obliged to cut dividend to the shareholders from Rs 1.50 per share in the previous year to only 80 paise.

Going through the accounts one observes that the profits for the previous year were boosted with capital gains of Rs 455 lakh which were made on sale of investments. There has been no such accrual of income during 1992-93. But part of 'other income' has increased from Rs 146 lakh to Rs 275 lakh, while export incentives earned have amounted much more at Rs 626 lakh compared to Rs 246 lakh in the previous year.

For the current year the company expects a pick up in domestic demand for B and W TV sets. It is also planning production of monochrome monitor tubes this year. While the export potential is good for these tubes, the domestic market is also growing at 30 per cent annually. The company is to obtain ISO 9000 quality certificate which is essential for making export to Europe.

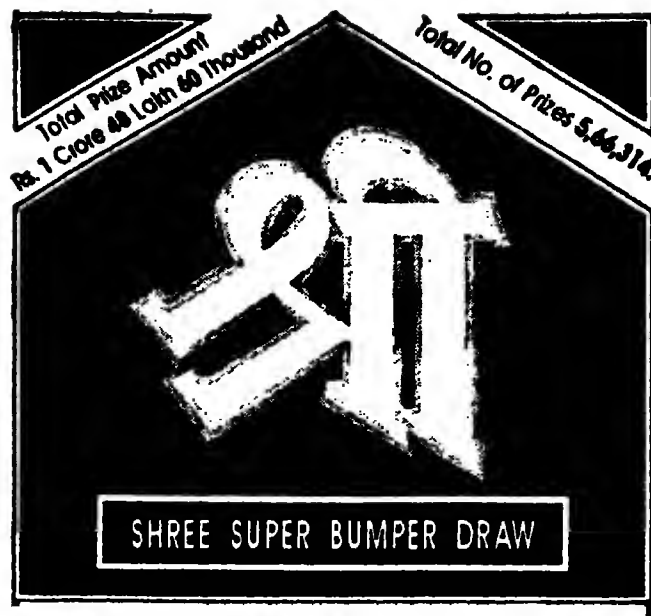
MIDLAND RUBBER

Lower Production

There is very little to draw by way of information from the directors' report of the Midland Rubber and Produce Company for the poor results of the company for the year ended March 31, 1993. The company has suffered a setback in both sales and profits and also pruned the dividend to the shareholders from Rs 3 to Rs 2 per share.

The directors state in their report that the tea crops harvested were lower than the estimates and the prices realised were also lower than the previous year. In cardamom, all-in-cost was high due to a lower crop as compared with the previous year. In rubber, although the crops harvested were lower, the prices were higher.

It is, however, the operative cost of labour that is claimed to be primarily responsible for the sharp drop in operating profits from Rs 165 lakh to Rs 88 lakh. The cost factor has particularly affected the position, after tea production declined from 12,10,090 kgs to 10,40,031 kgs and cardamom production from 28,163 kgs to 8,666 kgs. Rubber production amounted to 6,40,672 kgs compared to 6,91,427 kgs in the previous year, but sales were more at 6,63,288 kgs compared to 6,52,513 kgs and so also the turnover at Rs 198 lakh compared to Rs 163 lakh. The company made exports worth Rs 44 lakh against Rs 185 lakh in the previous year.



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Chendur Forge Exports

INCORPORATED in 1992 and promoted by Chendur Forgings (P), Chendur Forge Exports (CFE) notched a turnover of Rs 10 crore in 1992-93 with exports touching Rs 3 crore. CFE manufactures high precision forgings from carbon steel, alloy steel, stainless steel, aluminium bronze, etc. These products are supplied directly by the company or through its associates to leading OEM's and auto ancillaries such as Ashok Leyland, Telco, Rane Brakes India and Mahindra and Mahindra as well as two engineering companies such as Larsen and Toubro and BHEL. The company has taken over the promoter company's existing operations with an installed capacity of 5,000 tpa of steel forgings and is setting up a Rs 3.88 crore steel forgings EOU at Gummidipoondi near Madras with a capacity of 3,000 tpa. The EOU, which is in an advanced stage of implementation, is to commence commercial production in November this year. The forgings industry has been classified as an 'extreme focus industry for exports' by the government. The company enjoys various advantages such as acquisition of existing facilities of promoter company, low gestation period for EOU and backward area and sales tax and other related benefits. The EOU is to be financed through equity of Rs 2.23 crore, term loans of Rs 1.5 crore and state government subsidy of Rs 15 lakh. To part finance the project, the company is entering the capital market with a public issue of 18,50,000 equity shares of Rs 10 each at par on September 15. SBI Capital Markets and State Bank of Mysore are to lead manage the issue. State Bank of India, which has appraised the project, anticipates a net profit of Rs 48 lakh in 1993-94, Rs 124 lakh in 1994-95 and Rs 165 lakh in 1995-96 on an equity base of Rs 420 lakh. The EPS for the respective years works out to Rs 1.14, Rs 2.95 and Rs 3.92.

Winsome Yarns

Winsome Yarns has been promoted by Winsome Textile Industries in the joint sector with Punjab State Industrial Development Corporation. Winsome Yarns is an ISO 9002/IS 14002 company and is setting up a 100 per cent export oriented cotton spinning unit with a total capacity of 23,040 spindles. The project is to be set up at Derabassi in Patiala district in Punjab, about 20 km from Chandigarh. The state-of-the-art plant is to be supplied by some of the best textile machinery manufacturers in the world including Rieter of Switzerland, Schlafhorst of Germany, Luwa of Switzerland and Lakshmi Rieter of India. The company plans to manufacture international quality yarn for export. The project appraised by IFCI is the only one of its kind to be sanctioned financing under Indo-Swiss Mixed Financing 1991. This scheme has been approved by the Swiss government and involves no exchange fluctuation risk for imports. The company has already made marketing arrangements for 110 per cent of the production (4,200 tonnes per annum) with various overseas companies. The Rs 51 crore project is to be financed through equity of Rs 27 crore and loan of Rs 24 crore which

has been tied up. To part finance the project the company will enter the capital market soon with an issue of 1,18,80,000 equity shares of Rs 10 each at par. The imported equipment has already started arriving at site and commercial production is expected to commence by this October.

Ojas Appliances

Ojas Appliances, a manufacturer of electronic gas lighters and kitchen knives, is diversifying into mixers/grinders, pressure cookers, rice cookers and other kitchenware items. To part finance these plans, the company is entering the capital market with a public issue of 22.5 lakh shares of Rs 10 each at par aggregating Rs 2.25 crore. Of this, nine lakh equity shares have been reserved for non-resident Indians. The issue opens on September 20. The total project cost has been estimated at Rs 3.05 crore which, apart from the public issue, will be raised through promoters' equity of Rs 55 lakh and government cash subsidy of Rs 25 lakh. The proposed expansion will be carried out near the company's existing unit at Bamanbore in Surendranagar district in Gujarat. The plant is expected to commence commercial production by October this year. Projections made by Bank of Baroda show that on net sales of Rs 5.73 crore in 1993-94, profit after tax will be Rs 27 lakh and EPS 90 paise only. The EPS in the following two years, however, has been estimated at Rs 2.15 and Rs 3.12 respectively. The lead manager to the issue is Subhash Dalal Financial Consultants, Baroda.

Indian Rayon

Indian Rayon, an Aditya Birla group company manufacturing rayon filament yarn, textiles, cement, carbon black, insulators and argon gas, has entered the capital market with a rights issue. The issue of zero interest fully convertible debentures (Rs 125.01 crore) and non-convertible debentures (Rs 216.82 crore) with detachable equity warrants, aggregating Rs 342 crore, opens on September 14. The issue is being made to part finance the company's expansion plans. The fully convertible debentures will be offered to existing shareholders and employees in the

ratio of 1:5. The FCDs will have a face value of Rs 170 each and will be converted into one equity share on April 1, 1994 at a premium of Rs 160 per share. FCDs aggregating Rs 88.20 crore will be offered to shareholders, Rs 32.40 crore to promoters and Rs 4.41 crore to employees of the company. The FCDs that are being offered to the promoters and the group companies will have a face value of Rs 200 each and will be converted into one equity share at a premium of Rs 190 per share on April 1, 1994. Rs 155.64 crore of the NCDs will be offered to existing shareholders, Rs 53.40 crore to promoters and Rs 7.78 crore to employees. The NCDs having a face value of Rs 300 and carrying annual interest of 16.5 per cent payable quarterly, are being offered to shareholders in the ratio of one NCD for every five shares held. Each NCD will carry a warrant for one equity share at a premium not exceeding Rs 190 between 12 to 30 months from the date of allotment. Shareholders can sell the debentures at a discount of Rs 25 per debenture. The NCDs have been accorded '1 AAA' rating (highest safety and fundamentally strong position) by Investment and Credit Rating Agency of India (ICRA). Besides doubling the capacity of its carbon black division from 20,000 tpa to 40,000 tpa at a cost of Rs 72 crore, Indian Rayon is also setting up a project for manufacturing 50,000 tpa of high purity refractory grade magnesias used in magnesias bricks for lining furnaces in steel and other plants. The plant will be situated in Chippada village in Visakhapatnam district of Andhra Pradesh. A 100 per cent import substitution project, it is estimated to cost Rs 240 crore and is expected to go on stream by March 1995. The company has entered into a technical collaboration with Refractories Consulting and Engineering GmbH, Australia, which has given Indian Rayon exclusive licence and patent rights to sell the products in India. The company also proposes to invest Rs 83 crore for expansion, replacement, modernisation and installation of balancing equipment in the existing divisions of the company. The lead managers to the issue are ICICI Securities and Finance Company, SBI Capital Markets, Enam Financial Consultants, JM Financial and Investment Consultancy Services and DSP Financial Consultants.

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STATISTICS

Index Numbers of Wholesale Prices

(1981-82 = 100)	Weight	Latest Week 28-8-93	Variation (per cent)						
			Over Last Month	Over Last Year	Over March 27, 1993	1992-93	1991-92	1990-91	1989-90
All Commodities	100.0	244.8	1.5	6.6	5.0	9.8	13.7	10.3	7.5
Primary Articles	32.3	251.5	2.7	5.1	8.3	7.3	18.1	13.0	2.2
Food Articles	17.4	288.4	2.8	5.0	7.4	12.3	20.2	11.8	1.2
Non-food Articles	10.1	243.2	3.3	2.5	8.4	-0.6	18.0	17.0	3.6
Fuel, Power, Light and Lubricants	10.7	254.3	—	18.8	3.4	14.1	13.2	12.3	3.6
Manufactured Products	57.0	239.3	1.0	5.3	3.5	10.5	11.3	8.4	11.3

Cost of Living Indices

	Base	Latest Month 1992/93	Variation (per cent)						
			Over Last Month	Over Last Year	Over March 1993	1992-93	1991-92	1990-91	1989-90
Industrial Workers	1982 = 100	250 ⁶	1.6	5.9	2.9	9.9	13.5	11.2	6.5
Urban Non-Manual Employees	1984-85 = 100	205 ¹	—	6.8	6.8	10.4	13.5	11.0	6.9
Agricultural Labourers	July 60 to June 61 = 100	1,038 ⁵	-0.1	-1.9	-1.4	12.3	19.3	7.5	3.2

Money and Banking

	Unit	Latest Fortnight 20-8-93	Variation (per cent in brackets)						
			Over Last Month	Over Last Year	Over March 31, 1993	1992-93	1991-92	1990-91	1989-90
Money Supply (M ₁)	Rs crore	3,85,238	1,020 (0.3)	44,833 (13.2)	22,573 (6.2)	46,316 (14.7)	49,560 (18.5)	34,486 (14.9)	37,457 (19.4)
Net Bank Credit to Government Sector	Rs crore	1,99,303	3,683 (1.9)	30,092 (17.8)	23,214 (13.2)	16,274	24,589	23,048	20,676
Bank Credit to Commercial Sector	Rs crore	2,16,086	-3,513 (-1.7)	19,741 (11.0)	-288 (-0.13)	24,389	24,173	21,443	23,822
Net Foreign Exch Assets of Banking Sector	Rs crore	29,179	563 (2.0)	6,614 (29.3)	3,498 (13.6)	6,155	10,098	1,915	-149
Deposits of Scheduled Commercial Banks	Rs crore	2,84,306	4,708 (1.7)	37,613 (15.2)	15,734 (5.9)	36,389 (15.8)	38,217 (19.8)	25,583 (15.3)	26,809 (19.1)
Advances of Scheduled Commercial Banks	Rs crore	1,51,425	-3,578 (-2.3)	16,856 (12.5)	-557 (-0.4)	25,462 (20.3)	9,291 (8.0)	14,848 (14.6)	16,734 (19.8)
Foreign Exchange Assets (excluding gold)	Rs crore US \$ mn	22,713 7,247	317 108	6,445 1,008	2,517 780	5,385 746	10,223 3,383	-1,383 -1,137	-795 -854

Index Numbers of Industrial Production

(1980-81 = 100)	Weight	Latest Month (May 93)	Averages for*		Variation (per cent)				
			1993-94	1992-93	1992-93	1991-92	1990-91	1989-90	1988-89
General Index	100.0	213.2	210.1 (1.5)	207 (5.9)	1.6	-0.2	8.4	8.6	8.7
Mining and Quarrying	11.5	213.0	212.5 (-7.7)	230.2 (12.3)	1.7	0.4	4.5	6.3	7.9
Manufacturing	77.1	202.4	198.8 (1.9)	195.1 (4.9)	0.9	-1.8	9.1	8.6	8.7
Electricity	11.4	286.8	284.1 (7.9)	263.2 (5.9)	4.9	8.5	7.8	10.9	9.5
Basic Industries	39.4	..	..	..	..	3.8	5.4	9.9	5.6
Capital Goods Industries	16.4	..	..	..	..	17.4	22.4	7.0	15.9
Intermediate Goods Industries	20.5	..	..	..	..	6.1	4.3	11.5	4.8
Consumer Goods Industries	23.6	..	..	..	..	10.4	6.3	4.2	6.5
Durable Goods	2.6	..	..	..	..	14.8	1.7	12.0	7.8
Non-Durable Goods	21.0	..	..	..	..	9.4	7.5	2.5	6.2

Foreign Trade

	Unit	Latest Month (July 93)	Cumulative for*						
			1993-94	1992-93	1992-93	1991-92	1990-91	1989-90	1988-89
Export	Rs crore	5,611.95	21,684.71	15,562.44	53,351 (21.1)	44,042 (35.3)	32,553 (17.6)	27,681 (36.8)	20,232 (29.1)
Import	Rs crore	6,040.11	23,057.99	21,634.64	62,923 (31.5)	47,851 (10.8)	43,193 (22.0)	35,416 (25.4)	28,235 (26.9)
Balance of Trade	Rs crore	428.16	-1,373.28	-6,072.2	-9,572	-3,809	-10,640	-7,735	-8,003

Employment Exchange Statistics

	Unit	Latest Month (Dec 92)	Cumulative for*						
			1992	1991	1992	1991	1990	1989	1988
Number of Applicants on Live Register	Thousand	36,759	36,759	36,300	36,759	36,300	34,632	32,776	30,050
Number of Registrations	Thousand	397	5,302	6,238	5,302	6,238	6,541	6,576	5,963
Number of Vacancies Notified	Thousand	40	421	460	421	460	490	599	544
Number of Placements	Thousand	24	240	254	240	254	266	289	330

National Income

	Unit	1992-93	1991-92	1990-91	1989-90	1988-89	1987-88	1986-87	1985-86
Gross Domestic Product (current prices)	Rs crore	..	5,41,888	4,72,660	4,05,827	3,53,517	2,94,851	2,60,030	2,33,799
Gross Domestic Product (1980-81 prices)	Rs crore	2,21,168 (4.2)	2,12,316 (1.2)	2,09,791	1,99,503	1,88,943	1,70,322	1,63,271	1,56,566
Per Capita Income (1980-81 prices)	Rupees	2,222 (2.2)	2,174 (-1.1)	2,069	1,902	1,871	1,844	1,813	1,790

* Up to the latest month for the current year and for corresponding period last year. . . Not available.

Notes: (1) Superscript numeral denotes month to which figure relates, e.g. superscript¹ indicates that the figure is for January and so on.
(2) Figures in brackets denote percentage variations over the comparable period of the previous year.

Struggle for Reform

D N Ghosh

The White Paper on economic reforms is on the table. This provokes a discussion among three intellectuals: an economic analyst with leftist leanings, now dubbed a cussed conservative (C), a radical reformist (R) with an abiding faith in the efficacy of the market and foreign investment, and a political scientist (P). The host has an unenviable task as the moderator (M).

M. I do not claim expertise in any particular area and perhaps that is my strength. The White Paper covers a wide gamut of issues and we may confine ourselves to its most sensitive aspects. I must confess I am confused as to what is the core element in the current process of economic reform.

R. The goals of reform are growth and productivity in all sectors. We must achieve productivity levels which make our economy cost-effective and competitive in a global context. We are laggards in all areas, be it utilisation of capital, labour, land or services.

C. These must subserve our fundamental goal, which is, as the White Paper puts it in the opening sentence, rapid and sustained improvement in the quality of life of the people of India.

R. Of course, but central to that is the rapid growth in income and productive employment.

M. Pardon my ignorance. I cannot piece together in a coherent whole the bits and pieces I read in our financial newspapers. We expect our experts to clarify how the new policy regime will help generate employment through increased productivity. Do I sound too simplistic if I say that every step that we take must be judged by the litmus test which the White Paper itself lays down in the opening sentence?

R. It is good you have come straight to the point. The urgency for achieving enhanced productivity is of paramount importance. If the current productivity trends continue, China's GDP per capita will be more than four times that of India in the first decade of the next century. This is a grim and depressing outlook. The screaming headlines in the financial newspapers about cost-cutting exercises of the major transnational companies are somewhat unnerving, but there is no mercy in a ruthlessly competitive world. They are prepared to face the agony and pain in the short run, for they know that on a long haul the cost-effective products with good quality will generate a higher volume of in-

come and hasten the process of economic recovery. We must aim at sustainable growth over a period of time, but there is no short and easy route to prosperity.

C. I cannot persuade myself to believe that higher productivity and less workforce will necessarily create employment elsewhere in the economy. May I refer to the experience in the developed countries. Take the record of the Fortune 500 companies. Between 1975 and 1990, America's 500 largest industrial companies failed to create a single net new job; their share in the civilian labour force declined from 17 per cent to less than 10 per cent. Look at the record of the European Community. Despite its technological leadership in many areas, it is suffering from an unemployment rate of 10-11 per cent. Today there are about 22 million unemployed and 1 million additional unemployed are reported to have joined them during the past year itself. Can we be complacent enough to think that a lean and efficient corporate sector would necessarily generate employment elsewhere? What is the evidence we have to buy this?

R. I think we are looking at the problem too narrowly. The problem in the EC countries is one of recession and when the economy picks up, you will see the benefits of the current process of restructuring. But the recent experience of many countries, such as Mexico, may be more relevant for us. Productivity in Mexico has grown at twice the US rate in the past five years. The most dramatic gains are by corporations such as Ford, General Electric and IBM, whose Mexican plants match and often surpass their US counterparts in productivity and quality. The cover story on Mexico in a recent issue of *International Business Week* makes interesting reading. Since Salinas' term started in 1988, \$ 26 billion has flowed into Mexico for new plants and for upgrading existing ones and has helped create 2 million new jobs as US has shed them by thousands.

M. From what you are saying, may I take

it that an increase in productivity in countries set on structural adjustment programmes is necessarily linked to inflow of foreign investment. With the structural adjustment policies, Mexico's economy is getting progressively more and more integrated with the world economy leading to some sort of parity in productivity levels. The essence of Mexico's experience, as I understand it, is that transnational corporations find it profitable to have more investment in those countries which offer opportunities and incentives to exploit their low-wage advantage and to strengthen their competitive position in the global market. Are we really talking of these types of investment flows for the sourcing of components and establishment of manufacturing facilities in the new liberalised atmosphere?

P. I would not join issue with the experts whether Mexico's example is worth emulating or not. Let us have an open mind on this. What worry me are certain implications of pursuing these policies. If we are primarily depending on TNCs to increase investment and productivity, the choice of areas of investment is for them to decide and not for our country. What TNCs decide depend on how each one of them seeks to position itself in the globally competitive market place.

C. I am glad you mentioned this. I was somewhat hesitant to bring it up when in these days globalisation is advanced as the salvation for our industrial sector. The domestic economy gets integrated with the world economy through the instrumentality of TNCs, but this process will not necessarily lead to rise in productivity across all sectors of the economy. It will benefit productivity-wise only those industries where TNCs bring in investments. And clearly, as you have mentioned, the choice is theirs and not of the host countries.

R. What the new policy regime is aiming at is to create a framework where investment, domestic and foreign, will be market-determined. We cannot dictate the pattern of investment flows to the foreign investors. We have to accept the fact that the choice is theirs.

C. This brings us to the crux of the problem. This is not a matter of mere productivity. Can we say what the configuration of investments would look like in, say, three years' time. Which are the industries and sectors in which these investments would have taken place? Would they lead to massive increase in exports, as has happened in some of the Pacific-

rim countries or would they lead to massive outflow of foreign exchange through import of capital goods and through remittances of projects and expenses for exploring the domestic market? We do not know.

P. Economists cannot have the final say on this issue. I think there is some obsession with foreign investment. This stems from the origin of our current crisis. We are looking upon foreign investment as crucial for meeting what we have been referring to as the exceptional financing gap. When you get into that situation, you are severely constrained in your policy choices. If we do not know what the foreign investment pattern would be in, say, three to four years' time, we cannot then leave it to the market forces where the prime mover is the foreign investor. It is dangerous to accept that the larger the quantum of foreign inflow, the better for us. Shall we leave aside all concern for development of indigenous capacity in certain critical sectors where the outside world would not come to our rescue in our dire need? This is not to argue against deregulation in the industrial licensing process or to belittle in any way the substantial efforts made in doing away with cumbersome and unnecessary procedural bottlenecks. I do not also wish to give the impression that we should remain insulated from the world economy, but I would certainly plead for a different kind of state intervention which recognises the need for development of technological capability and research and development effort in certain key sectors. We must have a debate on the nature of state intervention that we need; this must be an integral part of our reform process.

R. Are you arguing that we get back to the earlier import-substituting phase which is acknowledged by virtually all as having stunted our growth potential, insulated us from the international market, and made our growth rate look pitiable in comparison with most of the Pacific-rim countries?

C. Certainly not. I do not belittle the growth that has taken place in these countries, but at the same time I would in no way belittle the fact that they are showpieces of 'hands-on' rather than 'hands-off' industrial policy. Their success is due not so much to the adoption of market-oriented policies as to a number of favourable historical factors and substantial state intervention.

M. What you are arguing for, if I have understood you correctly, is strategic intervention in a selective manner. There should be broad consensus on the contours of such a policy. We must welcome debate

and discussion on such strategic intervention. It is not that I am oblivious of the difficulties inherent in state intervention, going by our past record, but governments have to learn, they do learn, and we have to make them learn how to intervene strategically in the overall national interest.

P. Sometimes the obvious has to be repeatedly stressed. Somehow an impression seems to have gained ground that a large flow of foreign investment would necessarily improve overall efficiency and productivity in the domestic sector. The reformist would claim success by giving a quantitative index of foreign investment flow, but that is extremely deceptive. Large segments of our economy will be left untouched by the reform agenda as it stands today. Clearly, for many sectors and a good number of industries, foreign investment is not available. Our infrastructure services in power, transport, education and health are in a shocking state. Our work ethic and the behavioural attitudes of our management, employees and employee unions must undergo radical change; this is and has to be an essential component of any reform agenda. These are no less critical than the other, more talked about, areas of foreign investment and fiscal deficit.

R. I cannot avoid the feeling that our friends around the table have an inherent prejudice against foreign investment. If the Mexican example does not appeal to my leftist friends, let them turn to China. China has achieved a remarkable feat by allowing foreign investment which is running annually at roughly \$ 5 billion and is creating huge export surpluses. Let them look at the record of that country and judge for themselves the rationale of our policy.

C. Discussions on China will take us on a different track, but since my friend has raised it, let me respond to it as briefly as I can. China started opening up in 1979 as part of a decentralisation process with the objective of emerging as a strong economic power. It is true that from the launch of China's opening up policy in 1979, more than \$ 58 billion of foreign investment has poured in. The finance ministry's discussion paper does make a reference to it. But should we look at only the dimension of foreign investment inflow as an index of the success of the economic reform programme. It would be dangerously short-sighted to do so. China's growth rate of 10-12 per cent has led to a very high inflation rate which is about 20 per cent in Shanghai and over 30 per cent in the adjoining areas. The multinational companies which have gone into export manufacturing sector have created condi-

tions which someone has described as Dickensian; reminding one of pre-Industrial Revolution England. The country's balance of payments has started deteriorating sharply; a record deficit of \$ 3.54 billion in the first six months of the year compared to a booming surplus last year of \$ 35 billion. The foreign investment flow has taken place through independent initiatives by the managers of state collectives and China is now grappling with rampant corruption eating into the vitals of its polity: the ideology of making money is replacing the ideology of Marxism. A recent report filed from Shanghai in the *International Herald Tribune* makes a startling disclosure: Golf courses, luxury villas and apartments have soaked up huge quantities of bank loans across China, leaving infrastructure projects short of funds. I came across an estimate in a recent issue of *Wall Street Journal* which places funds siphoned off and kept abroad at 35 billion dollars.

P. China is trying desperately to rein the economy. Look at the measures taken by Zhu Rongji, the country's 'economic czar' as he is called and now appointed central bank governor and the Communist Party's top economic trouble-shooter. But China's is not solely an economic problem. The over-heated economy is bound to have a serious destabilising impact on its political process and pose a threat to its central authority. There are serious worries about loss of party control over the provinces. Disparity between growth rates of coastal provinces and the interior provinces has sparked off a series of serious farmer protests which seem to be getting out of hand. The commercial banks have run out of funds and different sets of IOUs for different classes of dues are indicative of a serious resource crunch. The forces unleashed by unrestricted flow of foreign investment has not only created a runaway economy, but is threatening the ethos and values on which the Chinese political system has been based for decades.

R. What you are saying is not an argument against the flow of foreign capital, but the manner in which it has to be utilised. Our macro-economic policies will put us on a sustained growth path and our institutions, both political and economic, are well placed to push through the reform process. The problem of transition which China is grappling with is somewhat inevitable in a centrally-directed polity; this does not flow from the decision taken in the late 70s to open up the economy. China has already taken several measures simultaneously to rein in the economy. We are encouraging foreign investment in a methodical manner. On the whole, it is

not likely to create any destabilising impact on the economy.

M. Let us turn to a different but connected issue: what sort of criteria should we adopt in evaluating the success or failure of the reform programme? It would not make sense to give overriding importance to a limited set of criteria to capture a complex reality. Increase in productivity may be accompanied by large-scale unemployment, fiscal consolidation may turn sour with abysmally low quality of public services, private foreign investment may mostly flow into low-tech high-profit sectors with the local market as the main target, and with no breakthrough in technologies we need. These doubts have been raised in different forums and we cannot wish them away by not discussing their implications, which are both economic as well as non-economic.

R. Trade-off is inherent in economic policy-making, but this apart, we have to judge the impact of any policy over a time-frame. One should not jump to conclusions by looking at the issues in a short-range perspective, but certainly we must ask ourselves whether we are moving in the right direction.

C. Well then, let us take the unemployment issue. We are in a blind alley. We have already discussed, somewhat convincingly I hope, that structural changes in the industrial sector, market-driven and technology-oriented, will not make any difference to the employment scenario: it may worsen it if one were to go by the experience of mature developed countries. We are at a watershed period in our post-war industrial experience. This is not a transitional or temporary or cyclical problem of job deficiency. Labour has become a shameful and heavy burden. Technology is taking a threatening course, dispensing with jobs like dirty and used commodities.

M. I am inclined to go along with you. Creation of jobs in all sectors of the economy at affordable wages is the primary issue that is baffling the politicians and economic bureaucrats of the developed countries. US secretary of labour, Rober Reich, writes in a recent issue of *International Herald Tribune* that with the reduction in the demand for labour in hi-tech industries, there is a compelling need for removing mismatch between the skills American labour has and what the American economy requires. But so far as we are concerned, redeployment and re-training of labour touch only a fringe of the problem. The National Renewal Fund would not even scratch the surface of our problem. We have a huge backlog of unemployment to take care of, leave aside the decline in employment in the organised

sector. All that the fund would do is possibly the training of a few data entry clerks, automated bank tellers, fast-food helpers, super-market store clerks, and jobs of such types.

M. Let me share my concern by tabling a question differently. We have indices to judge the efficacy of fiscal stabilisation programmes, movement of the inflation rate or the state of our external accounts and we have specific targets to reach within stipulated time-frames. Is it that if we achieve these targets, we hail the reform programme as successful, irrespective of what happens on the employment front? What does the reform programme offer by way of a sustainable employment policy? We are always apologetic about exit policy but we seem to be displaying a cavalier attitude towards employment policy. If the reform policies do not create more job opportunities and if the supportive policies are not concretely spelled out, with credible and acceptable indices to evaluate their impact, I would tend to regard the whole reform programme as seriously flawed.

R. I do have the uncomfortable feeling that my friends round the table have taken only a cursory look at the agenda paper and are allowing their bias to dominate their argument. The concern for unemployment comes out loud and clear. May I, with the permission of the host, read in extenso para 55 of the paper:

Nevertheless, there is the danger that the poorest segments of our society are bypassed by the virtuous cycles of growth in incomes and employment. It is towards them that the programmes of IRDP and Jawahar Rozgar Yojana should be targeted. And it is they who should be the prime beneficiaries of the public provision of food and other essential commodities through the Public Distribution System. All these schemes will have to be revamped to ensure that the benefits are really targeted to the poorest and do not 'leak' to those less worthy. At the same time, these schemes must create durable assets, whose benefits can be enjoyed by local people. Village industries and crafts will need more effective systems of technical, marketing and credit support so as to increase the growth of off-farm employment opportunities in rural areas. A responsible, responsive and decentralised panchayat system can help ensure these outcomes.

I do hope that this satisfies my friends.

C. It is not that we have not noticed it, though it is tucked away at page 27 of the discussion paper, sandwiched somewhat as an after-thought, between a paragraph on human resource development and financial sector reform. This is a rehash of what we have been doing over the last two

decades. In 13 lines, we have disposed of IRDP, Jawahar Rozgar Yojana, public distribution system, village industries and crafts and, to cap it all, a decentralised panchayat system. I would only make one observation and leave it at that. How do we judge that we are making a dent in the employment situation? These platitudes in paras 54 and 55 do not, despite all good intentions, throw up any indicative criteria to evaluate the direction and success of these programmes. If foreign investment has over-heated the Chinese economy threatening to create unpredictable political tensions, the scourge of unemployment, unless it is recognised as the most serious problem facing the country, will tear apart our polity. Instead of a compulsive obsession with opening the economy indiscriminately to foreign investment, we should instead have a compulsive obsession with our unemployment situation.

M. We have had time to discuss only certain aspects concerning productivity, employment and foreign investment. These are central issues and a technocratic mindset cannot offer solutions for our complex socio-political reality. But, nevertheless, it would be wrong to criticise *ab initio* the reform programme on the ground that it has been perceived and formulated at the behest of the IMF and World Bank, for IMF and World Bank do not necessarily say the wrong things all the time. In some of the crucial sectors we are solely responsible for our abysmal inefficiency—our services sector in particular. Can our unions restore a modicum of efficiency as otherwise who would take seriously their outbursts against the intrusion of competition? Look also at how we have misappropriated the benefits from irrigation and electricity without paying for them. The figures are mind-boggling, but except for stray voices in the wilderness, we all have, whatever our ideology, maintained over the decades an unholy silence. If our politicians had provided responsible leadership, keeping the country's interests in view, there would have been no occasion for IMF and World Bank to impose what is now being criticised by many as politically explosive and unacceptable conditions.

P. We have to see that our polity addresses itself to these basic issues. Today's reformists are doing down the past, but many of us who lived through the early 50s would recall that intellectuals, politicians and even dihard bureaucrats had a vision and all shared it ardently. We miss that now: this is the tragedy of the current reform process.

M. A nostalgic thought. Let us end on that note!

ANITHA PRADESH

A Year of Drought?

K Balagopal

In the absence of a positive policy regarding rain water conservation, the 'natural' process of development destroys mechanisms of storage, retention and recharge. All of this is part of the phenomenon of 'drought', whether or not there is a monsoon failure.

The south-west monsoon is all set to leave the skies of Andhra Pradesh. Having played truant for the first six weeks and wilful for the next six it is finally ready to clear out, leaving the people estimating—each in their region and locality—how much of a drought they are going to face in the coming year. It is no longer a new thing to say that official pronouncement of normality or subnormality of total seasonal rainfall in each of the districts is a largely meaningless exercise; and that the amount of rainfall has to be discussed in conjunction with what has happened or been done to the storage and retention mechanisms, processes and facilities to arrive at a meaningful framework for discussing drought. What needs to be stressed anew and described in gory detail again and again is that these have been destroyed, neglected, mismanaged or developed in a skewed way over the years, creating perpetual drought conditions of varied extent in various pockets, whether total precipitation of rain is normal or not. It is when rainfall drops below normal that the neglect and the one-sided development of water retention and storage processes is exposed sharply and gets discussed as drought, attributed to the meanness of the monsoon.

It is true that the government these days attributes the shortfall in rain to destruction of forests and is paying considerable attention to growing more forests, an attention that is likely to increase with growing conservationist pressure from international bodies on tropical countries that they should save their forests. Though our government understandably objects to this one-sided concern about conservancy in the third world—a one-sidedness that affects all concerns from atomic weapons to forests—which has fairly robbed the word 'international' appended to many world bodies of all meaning, this conservancy is a good thing as far as it goes, even if the emphasis on afforestation as the cure-all for drought is robbing landless poor of land that they have been in occupation of for years and even decades. Indeed afforestation is spoken of in such sacred tones by officials that the poor are left feeling guilty for even asserting their right to the land they are banished from. But the destruction of forests is about all that will be acknowledged by way of 'our sins' in causing drought. The lack of policies and wrong policies concerning water retention, storage and use is not treated as integral to the problem of drought the way deforestation is. Evidently, any such acknowledgement would amount to disturbing too many well-protected interests, many more than afforestation of land under the occupation of the poor would.

By the third week of July this year there was so little rain in Andhra Pradesh that the situation was frightening. Eighteen of the 23 districts in the state had received much less than

normal rain, in many cases as little as 15 to 20 per cent of normal. For instance, Pargi taluk of Ranga Reddy district, which has a normal precipitation of 1,600 mm by end July, had received only 330 mm by the end of the third week of July.

'PUJAS' FOR RAINS

The worried government officially commissioned 'pujas' and higher vedic rites to placate 'Varuna' the rain god. The ministry of religious endowments—which is presumably closest to the gods—was chosen to commission and get the rites executed. But in keeping with the present emphasis on private effort, ministers advised people not to depend for everything on the government but to perform 'pujas' on their own. There is no dearth of brahmins in the country anyway. Simultaneously, however, the government prudently undertook cloud-seeding experiments at chosen localities to cajole the clouds by secular effort to unburden themselves of water. And to confound things further there was a low pressure simultaneously in the Bay of Bengal, usually an augury of rain on the eastern coast. It requires statistical analysis of the kind not yet invented to decide which of these causes resulted in the tangible effect, but some effect did result. Meteorologists of Andhra University rebuked the cloud-seeding experts who had come from Gujarat for prematurely patting themselves on the back, and there was some polemical discussion about the relative merits of ground-seeding and aerial-seeding of clouds. Rationalists of various kinds criticised the government for wasting money on 'kratus' while it was evident that the rains came because of the low pressure in the Bay of Bengal. The brahmins did not deign to join the debate—they got their fees anyway—but no doubt the god 'Varuna', being a cautious fellow, prefers to work his boon through facts of nature such as a low pressure in the Bay of Bengal for it would be setting a wrong precedent to let empty skies rain. Any way, there was some rain—heavy in a few places where cloud-seeding had been done—for a couple of weeks, thereby improving the one statistic the government is interested in: total precipitation of rain by the end of the season. The figure climbed closer to normal in the deficit districts. At one point the government made bold to say that only 10 districts were deficit, but at the end it acknowledged that 15 of the originally deficit 18 districts were still in a deficit, though the deficit was much less at end-August than at end-July. And that was that.

But the people are concerned with whether whatever rain has fallen has served their purpose, and if not why not. This is for them the real meaning of drought. And this is linked to not just the total seasonal rainfall, but to the pattern of rainfall, retention of moisture in the soil, ground water recharge and availability at cost-

wise accessible levels, state of repair of the irrigation tanks, siltage of tanks and project reservoirs, destruction of catchments, sand-quarrying in the streams that feed the irrigation tanks, and so on right up to the crop-loan policy of the rural banks. In the perpetually drought-prone taluk of Devarakonda in Nalgonda district, for instance, it rained hard and briefly once at the beginning of the monsoon, and then once again a month later. Each time the less prudent of the farmers hoped for further rain and sowed seeds—castor, jowar and bajra, in that order the principal crops of Devarakonda. The more prudent were wiser. For there was no further rain, and the moisture in the soil was not sufficient for the sown seed to sprout and live. Many of them had to sow a third time at the end of July when it rained again. But the repeated demand for seed had in the meanwhile pushed up the market price of seed by 50 to 100 per cent, while the banks were not giving crop loans. The rural banks and the farmers' co-operative societies—both of them meant specifically to provide crop-related loans to farmers—bluntly refused loans for those who had defaulted last season, which meant most of the poor and middle farmers, for last season had also been a drought season in Devarakonda.

SKewed IRRIGATION POLICY

The point is that such scattered and insufficient rain is not at all a rarity in places like Devarakonda. To the extent that the problem is natural, one can talk—as politicians incessantly talk—of bringing the waters of the Krishna river to Devarakonda through old or new irrigation projects. But however many such projects may be built, a large part of Indian agriculture—especially in regions such as Rayalaseema and Telangana—is going to be principally rain-fed for a long time to come, and what is not rain-fed will depend upon wells and irrigation tanks which too are fed by local rainfall unlike canals of river-projects which may be fed by rains in far-off catchments. And so measures to conserve rainfall—in the soil, under the soil and in the tanks—are of primary importance. It is on these that sufficiency or insufficiency of rainfall depends. It cannot be said that the government is unaware of this—at least soil conservation and ground water augmentation have been part of its avowed objectives for a long time—but the sense of urgency that pervades talk about projects on rivers is entirely absent here. The former is a resounding element in the incessant din of Indian politics, whereas the latter is never a topic of political polemics or disputes, not to mention hunger strikes such as Jayalalita's.

It can be fairly said that for all the talk of expenditure on soil conservation, minor irrigation and ground water augmentation effectively the only irrigation policy that the government of India has is to construct dams across rivers and improve the statistics of irrigated acreage by spectacular jumps whenever it can get the World Bank or somebody else to loan enough money; and otherwise leave it to individual cultivators to extend irrigation in their private fields by private effort through well irrigation. To aid this effort, diesel and electricity are provided by the government for pumpsets, often at a subsidised price. And in the last two decades borewell technology for deeper exploitation of ground water is being extensively encouraged through loans both to the farmers and the borewell companies. Evi-

tenary, those who cannot raise enough resources are outside the framework of this extension of well irrigation. Mere tinkering with improvement of rain-fed lands, wanton destruction of irrigation tanks and neglect of evident opportunities for minor irrigation works—opportunities that abound especially in the hilly and undulating terrain of Telangana—that can help both the storage of rain water in tanks and the augmentation of ground water, are a corollary to this skewed policy. All of which becomes starkly evident and is called drought when the rains fall.

PREFERENCE FOR LARGE PROJECTS

The rural rich who control provincial politics in India are not unaware of this—indeed even the least literate of the cultivators of drought-hit areas are fully aware of all this—and yet you hear the leaders make little noise about it. The scientific ideology of admiration for the kind of dramatic statistics associated with big projects—five lakh acres to be brought under water at one go and so on—may be partly blamed for blunting the awareness of the leaders and the led. And depending on one's theoretical proclivities one can then go on to blame science—bourgeois male/occidental/white—for causing drought. But ideology is only partly the culprit. The provincial political elite prefers solutions with dramatic results to less spectacular measures that add up bit by bit over time and geographic space for a variety of reasons. Their political time-frame is short, often less than five years and their political idiom is structured accordingly. When water for five lakh acres is being promised or demanded, no mention need be made of which five lakh will be watered and when, and one can talk of the whole of one's political constituency being flooded with irrigation water in a short while, if only the government—or the opposition, or the World Bank—were not so cantankerous. That kind of grandeur is just not possible with soil conservation. And whereas canals bring only benefits (or so it seems), soil conservation, tank maintenance and ground water augmentation require some sacrifice, especially on the part of the rural elite that is misusing natural resources unconscionably. Finally, big projects yield politicians clout and money, for if they are themselves not civil contractors (most of them are), than their friends are, and even otherwise there are sizeable commissions to be made from project and canal contracts which cannot even be imagined in the case of other irrigation programmes. For instance, reliable gossip has it that Rambhoopal Reddy, the MLA who recently vacated the Panyam assembly seat so that chief minister Vijaya Bhaskar Reddy could get elected to the assembly, demanded and got Rs 50 lakh as 'protection money' from the construction company engaged in building canals for the World Bank-aided Srisailem Right Bank Canal project which runs partly through the Panyam constituency. It would be difficult to imagine even one-hundredth of that amount going the way of local MLAs if the nation's irrigation policy had been more democratic.

And so the river Krishna, in which there is little water left for any new projects, becomes the focus of all discussion of drought in Rayalaseema and southern Telangana, the principal areas of drought in Andhra Pradesh. Politicians talk incessantly of bringing the waters of the Krishna to their district, whichever it is. Their plaint that the coastal Andhra districts have benefited twice over from the Krishna river is quite true and just. First with the barrage built across the Krishna river by the British in

the 1850s, and then with the Srisailem project of post-independence years—which was one of the occasions when Nehru employed his famous 'temples of modernity' idiom—the Krishna waters have been taken up and down the central Andhra coast to water today's green revolution fields. The Srisailem project upstream on the same river was reserved for hydel production. With persistent agitation by politicians and people of southern Telangana and Rayalaseema, Srisailem has been converted into a multi-purpose project, and canals are being dug to water parts of Nalgonda in Telangana and Kurnool and Cuddapah districts in Rayalaseema. God—or rather the World Bank—willing, the canals will be soon complete.

DESTRUCTION OF TANKS

This is good, and undoubtedly a positive achievement of the landlord-politician class of drought-hit Telangana and Rayalaseema, to the extent that they are responsible for it. But this class will never talk about the destruction of tank irrigation and the over-exploitation of ground water, sins to which this class and its government have been a party. Much less will it talk about the complete neglect of rain-fed lands in which nobody is at all interested, for those who have the money can sink a borewell and the others can go to hell.

And yet the actual nature of the cultivation is precisely the reverse of these priorities. Eighty-four per cent of cultivated land is rain-fed in southern Telangana, and 82 per cent in Rayalaseema. Of that which is irrigated, 65 per cent is irrigated by tanks and wells in Rayalaseema and 62 per cent in southern Telangana. Canal irrigation is confined to the remaining. The completion of the Srisailem left and right canals will not alter the picture qualitatively. In the foreseeable future, Telangana and Rayalaseema are going to be preponderantly rain-fed and yet rain-fed land figures in the political polemics concerning drought only as land that is potentially to be flooded by the waters of the Krishna—or even far-off rivers such as the Godavari—if and when those waters are brought to the parched lands of Rayalaseema and southern Telangana.

The way tank irrigation has been destroyed is both criminal and pathetic. Both Telangana and Rayalaseema have a large number of irrigation tanks. While tanks and wells are equal providers of irrigation in Telangana, in Rayalaseema wells pre-dominate over tanks. Most of the Rayalaseema tanks were built during the reign of the Rayas of Vijayanagar (after whom the region gets its name) while in Telangana successive rulers from the Kakatiya kings onwards paid attention to the building and the improvement of tanks.

It is customary to hypothesise a 'village community' that collectively maintained and benefited from the tanks. That the 'village community' (whatever that expression conveys) took an active interest in the tank system is a fact, but the process was not exactly idyllic. The maintenance of the tanks was with the forced labour of the dalits and other lower castes. If the upper castes also chipped-in with labour, it was because they were the principal beneficiaries of the tank system. Even among them access to tank water was not equitable. Priority rights were with the dominant landholders of the dominant castes, and the others had access only on their sufferance. Such at any rate was the situation as we know it in the early decades of this century, and there is no reason to imagine a golden age of equitable community spirit that degenerated to depths of self-

interest in the historical equivalent of the age of 'kalli' that is, British rule. That there was a greater community spirit in the medieval Indian village than is possible in today's world does not mean that the whole village thought and acted as one. That community-spirit was principally caste-centred and did not always extend to the whole of the village community. Tank irrigation thrived in conjunction with the caste-determined rural Indian social structure. Benefits accrued to those at the top but the maintenance was with the forced labour (the caste obligation) of those at the bottom. The British did nothing to break the caste system but their system of heavy taxation and other attendant changes upset the agrarian arrangements of old to varied extents. With the spread of democratic ideas and movements, the caste obligation of the dalits has been socially rejected by the lower castes and juridically abolished by the modern Indian state. The state should then have taken upon itself the burden of maintaining the tanks but it did no such thing. The rural rich were just not interested in maintaining them if that could not be got done free by the poor. Instead they took to well irrigation, improved upon in later years with electric/diesel pumpsets and borewells. That took care of their fields, and they would continue to enjoy their first priority access to tank water so long as tanks existed. If the tanks in due course became defunct due to negligence, then that was that. They had their electric pumpsets, and deeper and deeper borewells, and they would put pressure upon the government for more projects on far-off rivers to satisfy their political constituency, but that was about all. The 'village community' could look after itself. Indeed, many of them have converted the silted tank beds into cultivable land parcelled among themselves or their faithful followers; tanks near urban centres have had housing plots carved in their beds with everybody's connivance, and whole housing colonies have come up in tank beds close to even small towns. And there are cases where brick-kilns have been set up in tank beds.

Thus we have, parallel to a preponderant interest in big projects on the part of the state, and an indiscriminate spread of well irrigation—not only geographic spread but a deepening that goes down to 170 or 220 feet these days—a rapid deterioration of the excellent tank system and total neglect of water retention capacity of the soil, and of tank and stream catchments, in both Telangana and Rayalaseema. Rayalaseema has a lower rainfall and therefore needs a more careful husbanding of the soil and of rain water as well as a more diligent maintenance of tanks. It has therefore been a bigger sufferer, but certain parts of Telangana, especially Nalgonda and Mahbubnagar districts, threaten to match Rayalaseema in the destructive neglect.

There is, for example, quite a big irrigation tank at Gooty in Anantapur district of Rayalaseema. Anantapur being one of the worst of the drought-hit districts in the country, the tank had gone dry many years ago and nobody had bothered about its ill-maintained bund and silted bed. Suddenly, four years ago, it rained heavily in the catchment of the tank and water from the drought-denuded land rushed into the tank. The tank filled fast and the bund breached, washing away the Gooty-Guntakal road and the crops sown all around. The much-awaited rains left devastated crops and a freshly emptied tank behind. Commenting on the state of ill-maintenance of tanks, a local official then said: "in the good old days it was enough for the Reddy to snap his fingers and the labourers

would rush to repair the breach... who commands such respect these days..." (Reddy, in Rayalaseema, is both the name of a caste and the designation of the village headman, the 'rukha'.) This variant of the idyllic village community theme that turns up in nostalgic social science writings expresses the problem succinctly. The Reddys of Rayalaseema have not stopped snapping their fingers but they have other purposes these days—such as getting votes rigged on election day. And the snapping of fingers is obeyed not as a caste obligation but as a more complex subservience to economic, social and political power that is of little use in repairing tanks. And so the Gooty tank remained neglected, though the breach of four years ago was temporarily filled up with sand bags. This year there was again a heavy downpour in the neighbouring hills of Kurnool district. The water rushing down the naked hill-sides rushed fast into the Gooty tank, once again filling it and breaching its bund. This time the Hyderabad-Bangalore national highway and the Madras-Bombay rail route were temporarily washed away along with farmers' fields, and therefore the breach made national news. The tank is again empty and the farmers in its ayacut are a bemused lot, for they are told that rainfall has paradoxically been well above normal in Anantapur this drought season, and therefore they need have no fears.

TO THE SLAUGHTER-HOUSE

As we have said above, the wanton destruction of the tank system has been paralleled by an alarming over exploitation of ground water by those who can afford the cost. One of the worst affected districts in this matter is Nalgonda. Farmers of the arid areas of the district are no longer talking of dug wells. They are there but they have all gone dry and that is that. They began going dry with shortage of rain and then they all went dry as the bores came. I talk of wells is to talk only of borewells, and that means only a section of the farming community is talking of wells. As the bores go deeper and deeper more and more farmers are pushed out of the class that has access to ground water, for a deep bore renders neighbouring bores dry, like the hungry roots of some giant tree the tubes are reaching lower and lower into the bowels of the earth to pump out water into the paddy fields. The borewell companies too are mostly owned by the rural-elite-turned-businessmen of the district. It is these companies of Nalgonda that are at the forefront of the state's assault on its ground water resources.

What happens to those who are thus pushed out of the race? What happens is that when the rains fail, they join the ranks of those who were never in the race. They sell off their bullocks, pair by pair, hoping that the last pair will not have to be sold, for at least one pair will be needed if and when it rains. They sell them as cheap as Rs 1,000 per pair, knowing well that when the need arises again the bullocks cannot be bought for less than Rs 3,000 each. The cattle are driven to the weekly cattle fairs at roadside village and towns, an institution still widely extant in Telangana and more so in Rayalaseema. Even at normal times there is a trickle that goes the way of butchers, though the principal sales are from farmer to farmer via middlemen. But with the onset of drought it is the slaughter-houses that take over the weekly cattle fair. Dozens of lorry-loads of cattle are taken away—the legs of the animals deliberately broken at the knee joints to prevent them from jumping off the vehicle—each week from almost all the cattle fairs in the drought-hit districts.

There was, of course, a time when governments used to have a policy of selling some amount of partially subsidised fodder to needy farmers. The amount supplied is usually extremely inadequate compared to the need—one week's fodder for one pair of cattle sold to about one farmer in a hundred is a fair description of the relief usually given—but at least a token attempt at fodder supply used to be made. This season the government of AP has not deigned to indulge in such a tokenism. With supreme aplomb the farmers were told that the government would spend money only on long-term measures such as percolation tanks, check dams and drinking water bores, and would not spend money on immediate relief for that is a drain on the budget and does not improve assets. But as cattle are a long-term asset and the denial of such a short-term need as fodder has resulted in a long-term loss, whereas check dams and percolation tanks are such long-term things that they never happen, and the long-term drinking water bores go dry after a short-term, the farmers are understandably in a thorough semantic confusion about long-term and short-term. But the truth seems to be that as part of the ongoing fiscal restructuring under the aegis of the IMF, both the funds and the philosophy are lacking for any such wasteful thing as drought-relief.

As the cattle go to the slaughter-houses their owners go to a different kind of a slaughter. (It was the ancient Indian 'rishis who first spoke unblushingly of quadruped cattle and biped cattle.) They migrate to canal-irrigated areas, if there are any nearby, to offer their labour cheap for transplanting and weeding paddy; if there are none nearby, they migrate to Hyderabad or farther still to that mother of slums called Bombay. The horrors of last December and January that forced as many south Indians as Muslims to leave that city are mostly forgotten; anyway those who came back that time and those who are going now are different people. That city's employers of cheap immigrant labour and the Shiv Sena have a different set of prospective victims now.

The most systematic migration takes place from Mahbubnagar, a perpetually and very badly drought-hit district of southern Telangana. Called Palampur until it was renamed Mahbubnagar in honour of Nizam-ul-mulk Mahbub Ali Khan, the migrant labour of the district is popularly known as Palampur labour. It is estimated that whether the government recognises a year as a drought year or not, about 5 lakh labourers migrate out of the district nine months in a year to work on project sites in all corners of the country. They work in bondage to labour contractors attached to project construction companies. They are paid some advance in the village and taken to the project site to work for the specified duration—usually about nine months from the end of kharif sowing and transplanting till the next kharif season. Their capacity for hard work and their pride that the toil of Palampur labour has created projects in all corners of the country is matched by their miserable living and working conditions—bad food, low wages, wretched dwellings, exposure to infections, denial of all legitimate rights of workers and sexual harassment of women. If the normal migration is five lakhs a year, the figure gets bloated in years which are officially recognised as years of drought.

DAMAGE BY QUARRYING

Statistical estimates of how much rain water gets stored in usable form—underground, in the tanks or in the soil—and how much goes

unused do not really deserve the honour unthinkingly accorded to numerical information in the prevalent positivist intellectual climate, but yet the rough estimate that only about half the rainfall finds its way to use in our country is revealing. As said earlier, Telangana has an undulating and rock-studded terrain marked by numerous big and small streams. The big streams (called 'vagu' in Telugu) have a steady and usually sandy bed, whereas the small streams (called 'vorre' in the idiom peculiar to Telangana) are more like wild slashes in the earth and have no proper bed. Irrigation tanks have in the past been constructed so that they are fed by the vagus and the vorres. And the tanks are usually part of a system of two to half a dozen built so that the overflow from those above feeds through streams into those below. There is considerable scope for using modern engineering techniques for improving and maintaining this system. One does read and hear about such projects in official documents and speeches but nothing seems to be getting done. Though Rayalaseema is worse served in the matter as it has a relatively flat terrain, what is really lacking is the intent to ensure that whatever rain does fall is made available to the people for drinking and cultivation.

While a positive intent is absent, the unrestricted process of development leads to a contrary effect. We have already spoken of the over-exploitation of ground water through borewell technology, which has led to even shortage of drinking water in quite a few villages, though the drinking water problem is officially fully solved by the installation of drinking water bores in a plurality in almost all villages. And of the conversion of tank beds into fields, housing colonies and brick kilns. We will end with another striking example. The flourishing growth of Hyderabad in the last decade has led to extensive quarrying of sand which is most accessibly available in the numerous streams of neighbouring Nalgonda and Mahbubnagar districts, streams that feed the irrigation tanks. Quite a few streams of these districts located within 100 to 150 kms of the state's capital city have been emptied of most of the sand in the bed, leaving the bed hard and flat. The effect is that when it does rain, the water that rushes into the stream which would normally have percolated gently through the sandy bed and would have partly augmented the ground water and partly fed into some tank, now becomes a flash-flood that breaches tanks and floods the surroundings. It was the neighbouring farmers who first noticed that sand quarrying in streams was resulting in loss of potential ground water recharge, and that their wells were going dry faster than normal after the sand in streams near their village started getting carted in lorries to Hyderabad. A grumbling agitation is in the making in villages near the affected streams of Nalgonda and Mahbubnagar districts, which are even otherwise in the drought belt.

Many such examples—bigger as well as more minute can be given to indicate how, in the absence of a positive policy regarding rain water conservation, the 'natural' process of development works in a contrary direction and destroys existing mechanisms of storage, retention and recharge. All of which is part of 'drought', whether or not the monsoon is a failure. Except that when the monsoon does fail, all the hidden sores get exposed and take the newsworthy form of cattle being led to slaughter, parched fields cracking up, and an occasional poor man or woman dying of hunger.

The Buddhadev Affair

Ajit Roy

Whether Buddhadev Bhattacharya will ultimately survive the pressures and manipulations of the vested interests in the West Bengal CPI(M) whom he has provoked remains to be seen, but the issues his actions have brought into public view cannot be easily brushed aside.

BUDDHADEV BHATTACHARYA'S departure from the West Bengal Left Front cabinet is in some respects a landmark in the evolution of the CPI(M)'s inner-party modalities. Though there is an apparent similarity with the resignation of the former finance minister Ashok Mitra some years ago, many crucial distinctions mark Bhattacharya's action as something qualitatively apart. Although he had a seat in the CPI(M)'s State Committee, Mitra was really a techno-bureaucrat rather than a party leader; secondly, still shrouded in mystery, his reasons for the break with the party and the government were not considered by the public to be of any great political significance. It was generally surmised that he must have developed some serious policy differences with Jyoti Basu.

Bhattacharya, on the other hand, is really an important member of the CPI(M) leadership: a member of the State Committee's secretariat and the central committee, he was also regarded as the emerging successor to the 80-year old chief minister whose retirement cannot be really far off. Moreover, he was seen as the most assertive and articulate crusader for a reformation of some aspects of the party's practice and culture. It was at his initiative that the previous police commissioner of Calcutta was promptly removed from his post after a drunken hoodlum publicly, if unwittingly, exposed their close familiarity during the funeral of the late Satyajit Ray about a year ago. (Incidentally, the same police official is now under investigation by the state vigilance commission.) More recently, Bhattacharya had been pressing for a thorough cleansing of the Calcutta district organisation of the party, some leading lights of which were reported to have been tainted by their association with the 'satta' don, Rashid Khan, now in custody for his alleged involvement in the big Bowbazar blast of March last.

Bhattacharya has also been engaged in a running battle with his cabinet colleague Subhas Chakravarty over the latter's conduct which has on many occasions landed the party and the Left Front government in embarrassing situations. Moreover, Bhattacharya, the minister of culture, has even shown his flair in cultural creation—that too with a pronounced ideological flavour. He recently wrote a play titled 'Duhshamay' (Bad Times) and had it staged.

The play focused upon a communal holocaust during which the police and administration generally remain passive when they do not actually collude with the criminals. This could be pertinently viewed as an indirect indictment of the Left Front government itself.

If his strivings were laudable, Bhattacharya personally was ill-equipped to carry them to fruition. His haughty temperament and often thoughtless utterances apart, he lacked the substantial sources of strength that the targets of his attacks within the party did possess. He did not have the solid control over the party apparatus that his targeted leaders of the Calcutta district organisation have, nor did he have the capacity to animate and mobilise the huge masses of party members and sympathisers that his *bete noire*, the apolitical sports minister, Subhas Chakravarty, could. Along with these important handicaps, Bhattacharya revealed his lack of political maturity by making the tactical error of presenting the party with a *fait accompli* by severing all connections

with the government as soon as he sought the party secretariat's permission to resign from the cabinet. The impact of this error was compounded by two coincidental factors. One was the close proximity of the three assembly by-elections, even though Bhattacharya's tantrums could not really have much of a material impact on the actual outcome of these elections. But he surely forfeited whatever sympathy was still left in Jyoti Basu's mind for this one-time protégé of his, when his actions jeopardised the chief minister's annual furlough for foreign trips.

If all this notwithstanding, West Bengal CPI(M) leadership desisted from taking any punitive step against him, it was because of his clean image and the public perception of his anti-corruption campaigns.

But the question remains—if he was really serious, then why did he not persist in pursuing his struggle formally within the party committees, state and the central, to which he had formal access before this dramatic gesture?

Whether Bhattacharya will ultimately survive the pressures and manipulations of the vested interests in the party whom he has provoked remains to be seen; but the issues that his actions have brought out in public cannot be easily brushed aside.

The whole affair has also posed another serious question: has a party which has given up all revolutionary pretensions and turned into a reformist outfit got the right to demand of its members adherence to party norms associated with a revolutionary formation?

APPOINTMENTS

NOTIFICATION

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Applications are invited for 2 posts of Research Associates under the UGC Special Assistance Programme. These Associateships are intended for persons preferably below the age of 45 years (55 years in case of women) who have doctorate degree in Economics/Econometrics and have published work to their credit and have already shown evidence of independent research work. The post is tenable initially for 3 years and extendable for 2 more years. The value of Associateship is Rs. 2,200/- p.m. with House Rent Allowance admissible to the University staff along with contingency grant of Rs. 5,000/- p.a. Applications along with bio-data and evidence of publications may be sent to Registrar, University of Madras, Madras-600 005 within 4 weeks from the date of this advertisement.

REGISTRAR

Traditional Fisher-People against Fishing Harbour

Mukul

Not only has the monsoon trawling ban in coastal waters not been enforced this year on one pretext or the other, but for the first time the Thankassery harbour, which is being developed ostensibly for the benefit of traditional fisher-people, has been used by a large number of mechanised trawlers. Traditional fisher-people see these developments as further assaults on their shrinking space in the marine sector.

IN the coastal marine fishing grounds of Kerala, the lives and livelihood of lakhs of traditional fisher-people are at stake. With the depletion and degradation of fish resources and continuous over-fishing, with several modern but destructive technologies, the social, economic and ecological crisis is manifesting itself in myriad ways. Come the monsoon months—June, July and August—and the conflict within the marine sector comes out in various militant forms like catching and burning trawlers, picketing and blocking roads and rail traffic, hunger strikes, police firing, etc.

This year, police firing took place on July 18 in Thankassery in Quillon district, where clashes between traditional fisher-people and mechanised boat owners or trawlers took place over the use of a harbour under construction. The anchoring of mechanised boats near the breakwater at Thankassery provoked the clash. While mechanised boat-owners and trawlers consider it their right that their boats be anchored here, the traditional fisher-people see it as yet another assault on their already shrinking space in the marine sector, and are trying to resist it.

The situation in the coastal areas of Kerala is not the same as before. Not only the monsoon trawling ban in the territorial waters of the state was not being implemented this year under one pretext or another, but for the first time Thankassery harbour was used by a large number of mechanised trawlers, although the harbour is being built for the development of traditional fisher-people.

Thankassery, Badi, Mottakara, Portkollam and Parlitotam are the five fisher-people villages near the harbour. On July 17 evening, a large number of villagers gathered at a meeting in Quillon, organised by Kerala Swatantra Matsya Thozhilali Federation, to analyse the impact of the harbour on traditional fisher-people. In the meeting, which lasted for over five hours, most of the fishermen and women raised alarm over the hijacking of the harbour by mechanised trawlers, but some of the traditional fisher-people, mostly from Thankassery village, which is

adjacent to the harbour, wanted the construction of the harbour as well as the anchoring of mechanised boats and trawlers to continue. Winston of Thankassery explains, "Mini trawl units have emerged in a big way in this area since the last two-three years. Now some of the traditional fisher-people are also operating the mechanised trawlers. They expect that the harbour will generate employment and other commercial activities in the altogether dark situation prevailing in the village."

The villagers' meeting, however, finally decided that they would oppose the operation of mechanised boats and trawlers from the Thankassery harbour. A J Vijayan, general secretary of the Federation and editor of *Waves*, a fortnightly from Trivandrum on traditional fisher-people, says, "It has been decided that only traditional fisher-people should be allowed to operate from Thankassery harbour. The district administration should ensure necessary regulations regarding this. If this is not done, a serious law and order problem will emerge in the whole area."

Actually, the technological changes during the last one decade have drastically changed the artisanal marine fishing fleet in Quillon district. These changes are complex and often lead to conflicts within traditional fisher-people as well as against trawlers and mechanised boat owners. The northern part of the district, from Neendakara to Azhikkal, is full of 60-70 foot 'thanguvallom' and 20-25 foot dinghies. The fisheries harbour at Neendakara is the centre of thousands of mechanised trawlers during the monsoon months. A large number of migrant fisher-people from Kanyakumari have also settled here permanently and usually use plywood boats and hook and line fishing in the deeper waters. South of Neendakara, Quillon town fishery from Thankassery to Pallithottam is dominated by hundreds of motorised plywood boats and fisher-people operate a number of small gillnets. A group of migrant fisher-people at Jonapuram use hook and line. South of Quillon town is also marked by non-motorised near-shore fishing operations. But overall, the mechanised sector

has had a devastating impact on the traditional fisher-people in the whole district. The operations of trawlers at Neendakara as well as the ring-seine units further north are severely affecting the traditional sector. Mini trawl units have emerged in a big way in northern Quillon. Some of the fisher-people villages have a large number of fisher-people who have been now forced to work in the mechanised sector.

A survey undertaken by the South Indian Federation of Fishermen Societies in 1991 states that a striking feature of the 'thanguvallom' belt of Quillon is the total absence of beach landing. Sea erosion is a severe problem. This problem forces the fishermen of Azhikkal, for example, to travel nearly 25 kms through the canal to reach Neendakara. The fuel expenses in this case, for just reaching the sea and to return home after fish sales at Neendakara, are at least Rs 250 per trip. Equally disturbing is the pollution of the backwaters due to the underwater exhaust of kerosene OIBMs fitted on the 100-odd 'thanguvallom' that undertake the trip each day. The inland fisher-people as well as the consumers complain that the fish obtained from the backwaters smell of kerosene. Apart from this, all marketing activities have shifted since 1987 to Neendakara, which has deprived a number of small vendors who used to purchase fish on the beaches of their livelihood.

Against this background, the Thankassery fishing harbour is becoming controversial. A report of the task force of the State Planning Board, government of Kerala, states that an integrated development project costing Rs 1,859 lakh was prepared for the development of Thankassery fishing harbour under the Eighth Plan, 1990-95. The project is supposedly intended for the benefit of traditional people. The report says, "Thankassery fishing harbour is one of the components of the integrated development project which was sanctioned by the government of India in October 1988 at a cost of Rs 1,411 lakh. Other components of the project, apart from the fishing harbour, are motorisation of 400 existing crafts with outboard motors, introduction of 400 marine plywood canoes and 20 dory fishing units. The project is scheduled to be completed in five years. On completion of the project, it would generate an additional annual fish production of 20,467 tonnes."

The port officials even pointed out that with the harbour complex, the actual fishing days per year would increase to 250. If the breakwater were extended to Pallithottam, apart from the 10 fishing villages of Thankassery, fisher-people around Pallithottam would also berth their vessels. It was also expected to increase the numbers of crafts from 1,200 to 1,600, with an increase in gears and outboard engines.

In fact, the establishment of harbours for fishing needs is one of the important

programmes of the modernised export-oriented model of development of the marine sector in Kerala. This programme started as early as the beginning of 60s. The construction of Vizhinjan as a harbour for deep-drafted vessels has started in 1962. The harbour projects at Neendakara, Azheekal and Mopla Bay, to cater to mechanised boats, were also envisaged in the same period. Fishing harbours at Cochin were commissioned in 1978 under the central sector. Neendakara was commissioned in 1988 as a harbour, catering mainly to mechanised boats, but with provision for deep-sea vessels. Mopla Bay was taken up in 1963 as an Indo-Norwegian project. The Azheekal project also was partially completed. It is also significant that of these 10 harbours, nine are planned for catering to mechanised boats or deep-sea vessels.

The government is totally committed to the development of harbours and investigation work is in progress at places like Muthalapozhi, Kayamkulam, Thottappally, Chettuva and Kasiragod to explore the possibility of establishing fishing harbours. But this development is increasingly proving to be contrary in results, so far as fish catch is concerned. The N Balakrishnan Nair Committee in 1989 concluded that penaeid prawn landings in Kerala and at the Neendakara and Cochin Fisheries Harbour centres during 1975-88 showed considerable fluctuations over the years. At Neendakara, with about 57,000 tons in 1975, the maximum during this period the landing registered almost a downward trend with periodical jumps at lower levels and ended at 9,100 tons in 1988 (see the table) in spite of increasing trend in the landings at Cochin Fisheries Harbour and in the whole of Kerala in the late 80s. The earlier levels of high landings of penaeid prawns at Neendakara were not reached in the subsequent years and this would be due to fishing pressure together with indiscriminate fishing of young ones. John Kurien and T R Thankappan Achari note, "In the main prawn landing centre in Kerala (Neendakara) the catch per unit declined from 83 kg/hr of fishing effort in 1973 to 20 kg/hr in 1984."

PENAEID PRAWN LANDINGS AT NEENDAKARA

Year	Tons
1975	56,750
1976	14,993
1977	24,120
1978	33,143
1979	14,582
1980	36,559
1981	9,537
1982	9,188
1983	7,516
1984	11,207
1985	10,607
1986	6,981
1987	12,908
1988	9,093

Source: CMIRI

This is the course of fisheries development in Kerala, where by the mid-60s trawlers, companies, exporters had entered the scene in a big way, paving the way for fast development of trawler and mechanised fishing in the coastal waters. To facilitate the operation of mechanised fishing boats, fishing harbours, landing centres, service centres, processing plants, etc, have also been developed. But 90 per cent of the fisher-people who constituted the traditional sector and who accounted for 70-80 per cent of the total fish catch have remained outside the pale of fishery development. As Thomas Kocherry, chairperson of the National Fish Workers' Forum, explains, "During the First Five-Year Plan, the planners thought that there was plenty of fish in the sea and resources were not exploited. They thought that the traditional fisherfolk did not have the skill to exploit the deep sea fish resources. So they decided to import modern technology. Though the original plan was to exploit deep-sea resources, the fish-

eries development ended up in export-oriented fisheries development; which created havoc in the territorial waters. Modern technology meant new costs in fishing, new costs necessitated higher returns which in turn led to more aggressive fishing. So modern technology became synonymous with higher production and large profits."

Thus, thousands of traditional fisherfolk in Thankassery harbour area are feeling alarmed and agitated over the construction of this new project. The recent villagers' meeting and police firing are but a foretaste of a major conflict. Elias, staying on the banks of Asthamudi lake in Quillon district, says, "we won't allow our displacement in disguise. The harbours are built in natural and safe areas. These areas have been traditionally used by the traditional fisherfolk. But now these are being converted into harbours. And after the harbour construction, we will be displaced. We are ready to ask as to who is actually going to benefit from this so-called developmental project."

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Choice and Dilemma of the Conscientious Activist

Vimal Balasubrahmanyam

Whether it is Narmada, human rights, communalism, whatever, people in progressive movements do have doubts and misgivings about what is appropriate, ethical, justifiable way of going about things and what really is the goal to aim at. These thoughts need to be discussed in public without fear of attracting accusations of betraying the cause.

THE gender-and-development people refer to a contrast in approach for meeting 'practical' vs 'strategic' gender needs. The former tries to 'make life easier' by fulfilling perceived necessities without challenging gender roles or social structures. The latter tries to tackle injustices stemming from gender-based differences.

If the campaign against pre-natal sex-choice technologies were to be looked at from this context, then the medical establishment which offers and encourages amniocentesis could claim to be fulfilling a perceived need while the activists who campaign against it are using the strategic-gender-needs approach. Obviously the latter can hardly claim to make life easier and 'popular choice' must obviously lie with the former. And thereby hangs a tale of the activist's dilemma.

A special issue of *Development Dialogue* ('Women, Ecology and Health', 1992:1-2) released this June has an interesting contribution by Bombay's Forum against Sex Pre-Determination and Pre-Selection which examines, among other things, this question of choice and the conflicts faced by NGOs.

Looking back on their experiences of getting a law passed to prevent misuse of amniocentesis, and their campaign to conscientise people on the value of daughters, the group points out that sometimes the goals set by activists (who see themselves as pro-people) sharply contradict what people themselves regard as their real needs.

While offering a detailed critique of the loopholes in the 1988 law passed by the Maharashtra government in response to the Forum's demands, the authors discuss various dilemmas in a sort of afterword to the struggle. Like, being wary of state control and yet demanding state protection of what the Forum perceives as women's real interests. The fact that people themselves want to use technology to prevent the birth of daughters and the Forum's 'unpleasant task' of going against popular choice.

Seeing a parallel in their own use of the law and the establishment's tendency to solve social ills by offering technological remedies, the Forum wonders if 'we too' are seeking easy solutions through the agency

of the law. This has been true in other gender issues like dowry and domestic violence where women's groups have campaigned for new laws but the actual impact of legislation has been limited. True, the process of campaigning, the resultant media exposure and the public debates have resulted in a social climate with potential to strengthen women. But the dilemma of what-should-we-demand and how-should-we-go-about-it remains.

Besides, the authors ask, are we looking at sex-choice and related technologies in a truly holistic way? Recalling discussions at a 1989 conference in Bangladesh, the Forum points out how shaky our stand becomes when we acknowledge that genetic engineering, hybridisation, artificial insemination, IVF, etc, are freely used in farming and cattle-breeding. Why do we question the ethics of these procedures only when done on human beings? Are we being selfishly manipulative of non-human life?

The Forum's courageous thinking-aloud is to be welcomed because the questions they raise in the context of their own particular campaign are the sort of questions which activists in other movements too need to begin asking—even if the exercise proves uncomfortable and unsettling. The Forum might feel, and I would agree, that the campaign against sex-choice was justified and necessary in the Indian context, despite the fact that it clashed with popular choice. But the contradictions they refer to are very real and can hardly be wished away. So far people in various movements have tended to shrink from publicly debating issues which question the very rationale of their action strategies. Whether it is Narmada, human rights, communalism, whatever, people in progressive movements do have doubts and misgivings about what is the appropriate, ethical, justifiable way of going about things and what really is the goal to aim at. If in all these thoughts are aired, it is only in hushed and hesitant whispers, within closed circles, because of the fear of being accused of betraying the cause.

In the context of the Forum's soul-searching analysis of its campaign against sex-choice technology, it is interesting to note

that the issue is a bothersome one not merely in son-crazy Asian countries but elsewhere too.

An article on 'The Hidden Cost of Sex Selection' (*New Scientist*, May 1) discusses the Pandora's Box opened up in the wake of a new 'gender clinic' started in London earlier this year. The clinic offers a sperm-separation technique for implanting embryos of the desired sex. Opinions from academics and the public are being gathered by a government committee. And while there appears to be no fear of a stampede for sons, various other possibilities seem to cause anxiety.

A law professor fears that if boys turn out to be a preferred choice, it might lead to a society with more aggression and violence. Another opinion is that people would not use this technology unless they already have two children of the same sex and so the overall sex ratio would not be affected. There is also the argument that more boys would be first-borns and girls would feel discriminated against as the 'second-choice' sex.

A box-item on the Indian situation refers to the Forum's campaign and one medical geneticist ventures to suggest that a change in the sex ratio might actually raise the value of women and thereby right itself. It will be recalled that this sort of argument had been offered by apologues for sex-selection in this country too when the amniocentesis controversy first surfaced in 1982.

However, the reason why I am citing the *New Scientist* article is that it has some relevant comments on the vexed issue of choice which the Forum has talked about.

Referring to a survey which suggested that most people in Britain 'do not mind' the sex of their child (i.e., have no preference either way), one scientist points out that asking people what they prefer, in a general sort of way, is totally different from saying look, we have got this new technology here, would you like to use it? "We cannot assume from one sort of situation how people would respond to the other...If we had this technology 70 years ago, we certainly wouldn't have the Queen as monarch".

As I see it, what people 'want' is determined by what sort of choices are made available to them. Plus the fact that in the prevailing medico-scientific milieu, people seem to feel that if a technology is available, it ought to be used. The next step is to feel that availability of that technology is a human right. (Like saying women themselves are asking for contraceptive injectables and implants, that is why we are giving it to them.) Popular choice therefore has to be questioned also in the context of which instruments shape that choice, as well as the social compulsion to make a choice at all.

Continuities and Discontinuities in Maharashtra's Socio-Cultural Scene

Meera Kosambi

Sometimes the past lives on into the present, sometimes it is transmuted and sometimes disrupted and recreated. This theme of continuities and discontinuities in Maharashtra's social history was the theme of the Fifth International Conference on Maharashtra: Culture and Society.

THE most abiding image of India, in the scholarly and the popular mind alike, is that of a land of contrasts. An important component of this image is the juxtaposition of the old and the new, of 'tradition' and 'modernity'. The phenomenon exists in all spheres of life, but its manifestations are not uniform. Sometimes the past lives on into the present, sometimes it is transmuted and sometimes disrupted and recreated.

This theme of continuities and discontinuities in India's socio-cultural scene, as displayed in a microcosmic form in Maharashtra, was explored in its manifold aspects in the Fifth International Conference on Maharashtra: Culture and Society, held at SNDT Women's University, Bombay on December 29-31, 1992. The main contexts for exploration were: religious thought and practice; social, economic and related institutions and processes; women's lives and endeavours; and literary and artistic expression.

Over the last decade, the series of international conferences on 'Maharashtra: Culture and Society' has established itself as an intellectual tradition and looked forward to with anticipation by the academic community—local, national and international—engaged in research on Maharashtra. The series was started by a group of international scholars with a background of extensive research on Maharashtra, and has been hosted so far by the following universities: University of Toronto in March 1984 (organised by N K Wagle), Poona University in January 1987 (organised by A R Kulkarni), Heidelberg University in June 1988 (organised by the late Gunther Sontheimer), State University of Arizona in April 1991 (organised by Anne Feldhaus), and SNDT Women's University in December 1992 (organised by Suma Chitnis and Meera Kosambi).¹

The conference opened with a brief speech of welcome and introductory remarks by Meera Kosambi. The assembled participants and observers then paid homage to the memory of Gunther Sontheimer, a pioneer in the field of Indology and an active spirit behind this conference series.

In her inaugural address, Suma Chitnis, vice-chancellor of SNDT Women's University, explored the theme of 'Continuities and Discontinuities' which had been chosen so as to capture the essence of the current ethos of Maharashtra. Over the last many

centuries, the region has evolved its own traditions of original thought and bold action, whether in the field of religion and devotion (such as the Mahanuvhav and Varkari sects), or in social reform (covering a wide ideological range, from Phule to Ranade, Agarkar and Tilak, and further to Ambedkar). Each of these traditions represented a wide spectrum of thought and ideas within itself, many of which are not only relevant but also vigorously pursued today. Unfortunately, however, certain dissonant notes have also been struck in recent years, leading to a partial break with the past. Religious tolerance and compassion have given way to narrow ritualism, the vision of a better and more equitable society has been dimmed by sectarian politics and ineffective laws, and intellectual excellence has been curbed by the commercialisation of education. The recent communal riots bore a grim testimony to this breakdown of traditional values. The greatest loss in this regard stems from the increasing elitist tendency which has lost touch with the region's cultural roots. The need of the day is to evolve a systematic analysis of traditions based not only on deductive and inductive logic, but also 'eductive' reasoning. This term, used in computer science, indicates how kinetic features emerge from previously latent features to meet the requirements of new systems. Hopes for the future lie in Maharashtra's ability for resurgence through a dialogue of this nature, she concluded.

Session I of the conference dealt with 'Religious Thought and Practice'. The very essence of religion was scrutinised by Tara Bhawalkar (Sangli, Maharashtra) who saw it as arising out of primitive man's striving to understand the mysteries of life, nature, and the external world. Her paper 'Continuities and Discontinuities in Culture—Religious Practice and Thought' (with special reference to Little Tradition and Great Tradition) examined the interaction between religious practice and doctrine through which the folk tradition was transmuted into the Great Tradition, and which, in turn, has continuously informed the folk tradition. Religious practice arose from the duality of human emotion: fear of the destructive forces of nature and gratitude for its protective forces; and was evidenced through myths, songs, art forms, rituals, etc. Out of these

evolved the more sophisticated component of religion, namely, its philosophy, as she illustrated with detailed examples from Maharashtra.

In a paper entitled 'Mountains, Rivers and Shiva in Text, Architecture and Ritual', Anne Feldhaus (USA) discussed the story of the descent of the Ganga, focusing on the image of the water falling onto Mount Meru and flowing off in four directions, and on the image of Shiva taking one stream of it on his head. She showed parallels to this imagery in two non-narrative religious media: first, religious architectural arrangements at the sources of a number of rivers in Maharashtra, and second, a type of ritual in which the water of a river is carried on to the temple (often located on a hilltop) of a nearby or distant god. The reiterated connections among mountains, rivers and Shiva signified both man's relation to nature and the embodiment of the fecundity of nature.

Leona Anderson (Canada) presented a paper on 'Incarnations of Svayambhu Ganesha in Maharashtra: The Case of the Ashtavinayakas'. Ganesha, the elephant-headed deity, venerated as "the lord of beginnings", has eight shrines at sites of spontaneous ('svayambhu') manifestations around Pune, which are pilgrimage sites considered to be a single unit. These crude unformed images contrast strongly with the conventional stylised form, but are worshipped as a symbol of natural, unmediated eruption of raw sacred power. These images and the stories associated with each manifestation were examined with a view to identifying the old and the new, the traditional and the modern within the Ganesha lore.

Starting with the premise that norms and values are a hypothetical ideal construction which enjoys stability, continuity and universality, Irina Glushkova (Russia), in her paper 'Norms and Values in the Varkari Tradition', tried to extract a consistent system of Varkari perspective as reflected in the poems of the great saint-poets of the tradition. This revealed the co-existence of two mutually exclusive and supplementary spheres: the mundane world of the devotee and the divine world of god. The intermediate space between these two spheres was occupied by the saint-poets who were mediators or bearers of the distinctive features of both the worlds.

The very basic questions of the history of the Hindu Maharashtrian identity, its limits and influence were addressed by James Laine (USA). He analysed the Sanskrit epic poem *The Shivabharata* which celebrates the life of Shivaji—the 17th century Maratha hero who was crowned a Hindu monarch, and showed how already at that time the term 'dharma' had changed its connotation to mean 'religion' in the modern sense, and was applied to both Hinduism and Islam (which was earlier viewed as 'a-dharma' or the opposite of religion). He then sketched a

history of the self-understanding of Hindus in Maharashtra by how they derived their identity as Hindus over and against rival views, how they determined the possibilities of tolerance and peaceful co-existence or the necessities of violence and aggressive warfare and how the use of Shivaji as a cultural hero served the purpose of 19th and 20th century conservative Hindu apologists.

In Session II on 'Socio-Legal Processes', NK Wagle (Canada) examined the relationship of the concepts connected with justice in his paper 'Crime and Punishment in Eighteenth Century Maharashtra: Brahmanical Shastras and Customary Practice'. On the basis of archival reports of the late 18th century, he showed that the judgments by the city magistrate or 'kotwal' of Pune in criminal law cases (including battery, assault, rape, common theft, grand larceny, fraud, etc) differed radically from the ancient Hindu dharmashastras as normative legal rulings. The latter had little practical relevance to the day-to-day activities of the people, even in a city directly controlled by Brahmin rulers.

A century later, English education and systematic government introduced by the British colonial rulers catalysed social change in the traditional society of Maharashtra. SP Sathe (Pune), in his paper 'Law and Social Change in Maharashtra: Rakhmabai's Fight against Male Hegemony—A Late Nineteenth Century Experience', examined the legal case which symbolised a lone woman's fight against the male establishment, in the 1880s. During the case which was fought under the provisions of Restitution of Conjugal Rights, Rakhmabai raised pertinent issues regarding the injustice of the institution of child marriage; the enforcement, by a secular court of the colonial regime, of rights arising from such a marriage; and a woman's right to disown an unconsummated childhood marriage. The story of Rakhmabai's litigation provides insights into the various currents of public opinion prevailing at the time, and also into British judicial activism.

In Session III on 'Women's Lives and Endeavours', Meera Kosambi (Bombay) examined another facet of social change and reform as it impinged upon the upper caste women's lives in the 19th century, in 'Life after Widowhood: Two Radical Options in Renaissance Maharashtra'. The equation of widowhood with instant civil death was firmly entrenched in the Maharashtrian psyche, but the social awakening sought to give widows a new lease on life. Two quite divergent and radical new options were made available. The path of remarriage was restricted to child widows and led them back into mainstream society to fulfil the traditional wife-mother role. The second path, feasible for women widowed in adulthood, was that of the newly available western education and a socially useful career, and

created an altogether new space for them (and for women in general) in the semi-public sphere. The rare success stories included those of Anandibai Karve who re-married Maharshi D K Karve (the founder of SNDT Women's University) and her sister Parvatibai Athavale who was a life-long teacher in Karve's residential school for women. The lives and experiences of the two widowed sisters were analysed on the basis of their Marathi autobiographies.

'The Feminist Element in Post-World War II Marathi Poetry' was outlined by Vijaya Rajadhyaksha (Bombay). The Indian, or more specifically Maharashtrian, version of feminism manifested itself in the works of both male and female poets. Both portrayed the women, almost for the first time, as an individual with a personality, will, intellect and courage of her own, although the men tended to romanticise her while the women expressed her predicament as caught in the overlap between the new world of education and employment, and the old world of domestic responsibilities. Recently, dalit poetry has added another unique touch to the dual oppression and humiliation of their women due to caste and gender hierarchies. But the tone is one of defiance which spurns charity as demeaning, and pity as hypocritical.

Session IV on 'Literary and Artistic Expression' was opened by Eleanor Zelliot (USA) with her paper on 'Saint Sahitya and Its Effect on Dalit Movements'. The writing of the medieval untouchable saints has had a profound effect on dalit movements in the past, and their work carries a message which is relevant even today. In Maharashtra, Chokhamela and his family were beloved members of their circle of saints, and proved through their creative poetry that untouchables were significant contributors to the

region's culture. Chokhamela is no longer an effective role model for dalits, because of his acceptance of 'karma' as the reason for his low birth and because of his devotional tradition's lack of concern with social change. However, the poetry created by him and his family are a treasury of social comment on the times, and also contain moving criticism of society and of hypocritical religion. Thus they are the partial forerunners of today's dalit poetry and can provide considerable strength to dalit movement in its quest for equality.

Ashok D Ranade (Bombay) analysed the conceptual and practical problems posed by the performing arts to cultural thinkers, in his paper 'Thoughts, Values and Culture: Performing Arts'. Within the group of dance, drama and music, each art has displayed continuity of varying intensity, operating at various levels. Maharashtra has largely favoured music and drama over dance (which has been relegated to the 'non-elite' categories of expression). Against this backdrop, the emergence and popularity of the musico-theatrical forms in 19th century Maharashtra were examined as symptomatic of deeper socio-cultural changes that characterised the psyche of the region. These changes were accompanied by parallel changes in the societal sensibility, such as an urge for autonomy, a levelling of social stratification in the sphere of the performing arts and an attraction of the composite whole, in an attempt to cure the existing emotional aridity of the society.

Session V on 'Social and Economic Changes' covered a wide historical and substantive range. AR Kulkarni (Pune) traced the 'Mahar Watan in Historical Perspective'. Mahar was one of the 12 members of the village establishment in the 'halutedari' system of the medieval Maratha country (the equivalent of the 'jajmani' system in

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north India). The published and unpublished archival material shows that from the 17th to the early 19th century, the Mahar functioned as a servant of the village community and of the government, and was granted a special hereditary land tenure and privileges or 'watan' in return. This shaped his relationship with other members of the village community and also gave rise to disputes. During the British period, special legislation was introduced to govern the functions and privileges of the Mahar, which were later opposed by B.R. Ambedkar. In 1959 the watan was finally abolished and converted into a free-hold with some temporary conditions.

The 20th century witnessed profound economic upheavals in Maharashtra as a result of global events, as shown by Y.D. Phadke (Bombay) in 'Impact of the Great Depression and the Second World War on Agriculture and Industry in the Bombay Province, 1929-45'. While the western countries recovered relatively quickly from the Great Depression of 1929, India's difficulties were prolonged. Bombay Province experienced a slump in industry as well as agricultural production until 1939, which was then further exacerbated by the turmoil of the war years up to 1945. The effects on the textile industry of Bombay were severe, and included strikes by communist-led workers' unions, a temporary ban on the CPI, and the strategy of the first Congress ministry of 1937-39 to seek a balance by redressing the workers' major grievances while restricting their right to strike.

Nineteenth century Maharashtra witnessed an upsurge of social and religious reform movements. Two such major movements were analysed by J.V. Naik (Bombay) in 'Prarthana Samaj and Satya Shodhak Samaj: A Comparative Study of Religious Dissent and Social Protest'. The two movements shared ideological commonalities derived from western values of rationality and equality, but also displayed differences based on their approach to the Indian religious tradition. The Prarthana Samaj, led by Justice Ranade and others, enfolded within itself the ancient 'Bhagwat Dharma' and the devotional tradition of Maharashtra (and in fact identified itself as 'Protestant Hinduism'); while Mahatma Jyotirao Phule's Satya Shodhak Samaj consciously rejected the entire corpus of Hindu religious literature as representing the Aryan heritage which was Brahmanical and anti-masses. In fact, it was through rebellion against this form of socio-religious reform that Phule developed his militant stance for emancipating the oppressed castes, also providing them with a new identity in the process.

During the 20th century, this emancipatory struggle took a new turn. Nalini Pandit (Bombay), in her paper 'Dr Ambedkar and Buddhism', explored Ambedkar's skilful use of religion as a great social force with a potential for creating a new social order.

Rejecting Hinduism because of its lack of equality and fraternity, he selected Buddhism which was consistent with science, required no belief in god, had a sound underpinning of morality, and was accessible to all irrespective of caste and sex. However, in doing so, he reinterpreted Buddhism differently from the original doctrine, and introduced Marxist concepts of exploitation and the ideal communist society. The end result was a distortion of both Buddhism and Marxism, but proved to be an effective ideological force.

A different and unusual dimension of social change was explored by Jim Masselos (Australia) in 'Bombay Time'. The initial method of measuring and determining time, according to the position of the sun, gave way to newer methods during the 19th century due to the imperatives of new communications technology, especially the railways and telegraphs. Standardisation of time throughout the subcontinent became essential, but Bombay resisted the imposition of 'Madras Time' and 'Indian Time', clinging to its own 'Bombay Time'. Underlying this process were deeper issues such as the way in which Bombay city and presidency viewed themselves in contrast to the rest of India, and also the forces and social groups involved in promoting Bombay Time in the city.

A fitting conclusion to the academic sessions of the conference was provided by Maxine Bernisen (Phaltan, Maharashtra) by pulling together the most urgent concerns facing Maharashtra and the rest of the country today, in her paper 'From Dream to Nitty-Gritty—The Complex Task of Educational Reform in a Maharashtrian Town'. Independence defined India as a traditional society committed to modern nationhood and to socio-economic and industrial development within a democratic secular framework. This image has been gradually threatened by the ethnic and religious diversity of the society which promotes not only conflicting visions of the future but also conflicting interpretations of the past. In this context, she discussed her own experience of trying to develop a privately funded Marathi-medium school based on democratic secular values, modern educational practices, and environmental awareness, highlighting the complexity involved in translating a dream into the nitty-gritty of day-to-day practice.

The finale to the conference came in the form of an innovative musical programme 'Swara-Chakra' ('Interlocked Wheels'), which was specially composed for the occasion by Ashok D. Ranade (deputy director of the National Centre for the Performing Arts, and a participant in the conference), who also compered it. It was a scholarly and sensitive exploration of Maharashtra's musical response to the three cycles which continue to shape the Indian culture as a whole—the cycles of birth and death, day

and night, and the seasons. The programme illustrated the manner in which creative minds have historically reacted to these critical phases of human life in a variety of musical genres, from folk songs to art songs, and through a range of compositions. By retrieving some nearly lost musical forms and by juxtaposing them with currently popular ones, it provided yet another illustration of the theme of continuities and discontinuities in Maharashtra's cultural life.

The success of the conference was evident in several ways, especially in terms of scholarly standards and the coverage of diverse issues of intellectual enquiry—which spanned the folk tradition, religious sects and trends in Maharashtra; the 17th-18th century upsurge of Maratha power and the related issues of religious identity, administrative-judicial system, and village economy; the multiple facets of the 19th-20th century movements for social and religious reform; the literary tradition of the saint poets which still wields a powerful influence on the Maharashtrian psyche and the more recent 20th century literary trends, as well as the distinctive performing arts tradition of the region; and finally, both urban and rural concerns. Many papers covered more than one of these dimensions and such overlap made for a natural transition from each session to the next. In the best tradition of this series of the international conference on Maharashtra, the fifth conference also attracted scholars from all over the world—North America, Europe, Australia, and equally importantly, from different parts of Maharashtra. It is heartening to see the nature and extent of the intellectual investment in exploring, retrieving and keeping alive the multiple facets of Maharashtra's socio-cultural scene.

Notes

- 1 The proceedings of the First Conference have been published by the University of Toronto in two volumes: *Religion and Society in Maharashtra* and *The City, Country and Society in Maharashtra*. The proceedings of the second and third conferences are in press. A report of the third conference was published under the title 'In Search of the Indian Concept of Tradition' by G. Santheimer and M. Kosambi in the *Economic and Political Weekly* of September 3, 1988 (pp 1833-36). A report of the fourth conference was published by M. Kosambi under the title 'Images of Women and the Feminine in Maharashtra' in the *Economic and Political Weekly* of June 22, 1991 (pp 1519-24).
- 2 Interestingly, Japan was also to be represented in the conference through T. Yamazaki's paper on Justice K.T. Telang's contribution to social reform, and H. Kotani's paper on the process of disintegration of the watan system under British colonial rule (with special reference to 'Joshipan' watan). Unfortunately, both scholars had to cancel their participation shortly before the conference due to personal reasons.

Understanding Transition towards Post-Apartheid South Africa

Rajen Harshe

South Africa is undergoing a difficult phase of transition that involves rearranging the mechanisms of sharing power among its citizens through a new constitutional framework. Despite occasional deadlocks in the process of dialogue the contending parties are likely to arrive at some agreements over most of the contentious issues of governance.

THE process of dismantling the system of apartheid gathered unprecedented momentum in the Republic of South Africa after the unbanning of the African National Congress (ANC) and the release of Nelson Mandela during 1990. This process has been predominantly shaped by an ongoing dialogue between the F W de Klerk regime on the one hand and its main opposition parties like the ANC on the other hand. Obviously, the current phase of transition towards post-apartheid state has been anchored round negotiatory settlements of controversial issues pertaining to governance. While settling such controversial issues, especially those related to power sharing, the process of dialogue has witnessed occasional deadlocks between de Klerk regime and the ANC. The course of dialogue has also been intermittently influenced by the politics of Inkatha Freedom Party (IFP) which has emerged as the arch rival of the ANC. The IFP is trying to widen and consolidate its base among the Zulus and use it as a bargaining lever to enhance its potentials of sharing power through negotiations. This has inevitably intensified the rivalry between the ANC and the IFP. Consequently, sporadic outbursts of violence between the ANC and the IFP supporters in the black townships have become a routine feature in the current phase of politics.

The process of transition towards post-apartheid state in South Africa is also being periodically disturbed by the extreme right groupings which still want to hold on to apartheid. The alleged association of the far right with the brutal assassination of Chris Hani, a veteran leader of the South African Communist Party (SACP) in April 1993 is a case in point. In fact, the political assassinations of important leaders have sufficient potentials to disrupt the ongoing process of negotiatory settlements in South Africa. However, irrespective of periodical deadlocks and even set-backs, the process of negotiatory settlements has incontestably been making a steady progress towards the establishment of post-apartheid state and society in South Africa.

Indeed, the prospects of an interim government of national unity and the non-racial general elections at the beginning of 1994

have inaugurated a new phase in South Africa's history. In the midst of this apparently revolutionary phase of transformation several inconvenient questions need to be posed and handled to acquire some grasp of the developments in South Africa. For example, how will the system of apartheid haunt the South African society despite the abolition of apartheid laws on paper? How have F W de Klerk and Nelson Mandela encountered the challenges posed by the white conservatives and the black militants to the process of negotiatory settlements? What has been the significance of the IFP during this current phase of transition? Is the traditional bond between racism and capitalism getting diluted in the rapidly changing social context of South Africa? If it is, what could be the operational parameters of capitalism in South Africa? This article attempts to handle some of these questions.

EFFORTS TO DISMANTLE APARTHEID

President F W de Klerk's regime, since the past three years, has taken certain significant steps to eventually dismantle the system of apartheid. For instance, hundreds of regulations and about 200 laws that sustained apartheid and racism were scrapped in the South African parliament due to anti-apartheid initiatives taken by the ruling National Party (NP). As a result, the apartheid system no longer has the legal and constitutional sanctity. By repealing the Prevention of Mixed Marriages Act, Group Areas Act and Population Registration Act, the de Klerk regime has introduced its own version of glasnost in South Africa.

Owing to these reconciliatory overtures a flood of freedom fighters, who were in exile, has already occupied the political landscape of South Africa. The prevailing atmosphere of openness has offered an opportunity to the hitherto downtrodden black communities and their representatives to air their support to establish non-racial egalitarian society in South Africa. What is more, some of the orthodox institutions like the Dutch Reformed Church (DRC) are changing their erstwhile racist stances. The DRC functioned almost like a sectarian custodian of hoer bigotry and defended economic

privileges of the whites. Under the prevailing circumstances, the DRC is fighting shy of wrapping up racism with ethical veneer and proclaiming vulgar theories that uphold genetic inferiority of the blacks.¹ The withdrawal of the DRCs support to apartheid could be construed as a psychological victory of the anti-apartheid forces.

Furthermore, in order to manage a smooth and peaceful transition towards post-apartheid South Africa, practically all the major parties have signed an agreement to hammer out a viable constitutional arrangement. In this context, the processes of dialogue initiated by the Convention for Democratic South Africa (CODESA) since December 1991 have inevitably sown the seeds of the eventual demise of apartheid. The spirit of CODESA, got a further boost when in an all white referendum of March 17, 1992 the white electorate overwhelmingly supported de Klerk's policy of terminating the apartheid system. In a word, the ongoing movement towards annihilation of apartheid is replete with ranges of optimistic developments. However, a slightly deeper look into the social realities of South African society is capable of unveiling the staying power of the apartheid system in a new manner.

APARTHEID AND SOCIAL REALITIES

Most of the outward manifestations of change, involving the scrapping of the legal, constitutional framework, would hardly transform the social realities in South African society. For, such realities have been located within the structures of domination which have functioned under the aegis of the apartheid state over the span of four decades. Evidently, the apartheid system symbolised a structure of violence, implicit as well as explicit, to perpetuate the racial dictatorships especially of the white Afrikaner community. Moreover, the process of the development of capitalism in South Africa has been inextricably linked to the policy of racism and apartheid followed by successive NP regimes since 1948. These regimes often utilised various state apparatuses to promote the interests of Afrikaner whites in business, civil service and the army.² Thus, unequal privileges among diverse racial groups was at the heart of the development of 'racial capitalism' in South Africa. This racial capitalism, over the years, could be consolidated owing to the growing economic and commercial linkages between South Africa and the advanced capitalist economies of the west. Also, South Africa's military might and the continued co-operation of western powers with South Africa in military related areas had almost made the apartheid regimes invincible.³ After the 70s, a common fear of the Soviet-backed movements such as the ANC and the South West Africa Peoples Organisation (SWAPO) and regimes such as Angola and

Mozambique had strengthened the ties between South Africa and the western world. To an extent, the command of the white Afrikaner community over diverse state apparatuses was being reinforced by the support from the leading capitalist countries in the context of the cold war.

Evidently, the racial dictatorships functioning under the aegis of the apartheid system have had an enormously damaging impact on the South African society. Asymmetry of privileges particularly between the whites and the blacks became all pervasive. This point can be driven home by citing a few examples of land laws and education system. Under the apartheid system 87 per cent of the land was grabbed by the minority white population while the blacks have had to contain themselves within the remaining 13 per cent of the land. Most of the fertile and mineral rich patches of land were controlled by the whites. The ownership average of the land by white farmers was as high as 1,700 hectares out of which 286 hectares were arable. In contrast, the blacks had 13 hectares of the land out of which 0.9 was arable.⁴ The state was spending on an average five times more to educate each white child than it spent to educate each black child.⁵ To a large extent, several decades of geographical segregation, educational discrimination and impoverishment continued to obstruct the blacks from capturing high paying or skilled jobs. Even today a negligible percentage of the blacks are in the upper echelons of bureaucracy and in managerial jobs.

The above stated structure of unequal privileges was defended and protected by brute force that was at the disposal of the state. As far as the human rights are concerned, the record of successive white regimes, during the past four decades, has been far from enviable. These oppressive regimes arrested about 17 million people from straying into white fieldlands, forcibly removed roughly 3.5 million from their homes to build homelands, detained thousands of prisoners and forced more than 40,000 people into political exile. Thus, the institutionalised racism under the apartheid system could generate, bolster and consolidate varying ranges of socio-economic inequalities through gross violation of human rights.

Obviously, the cosmetic reforms through constitutional legislations, which do not substantially affect the property relations, might only have a marginal impact in redressing the structures of unequal privileges. For example, some of the radical parties like the Pan African Congress (PAC) have been extremely critical of the government's white paper on land reforms.⁶ The PAC perceives that the government is likely to protect the beneficiaries of apartheid without compensating its victims through the policy of land reforms. It is quite possible that the PAC leadership is entertaining exaggerated suspicions about the government's intention to abolish apartheid. Nevertheless, to liquidate socio-economic

inequalities between races would warrant a long drawn out struggle in post-apartheid South Africa

Apart from sustaining structured inequalities between the races, the system of apartheid has actively promoted centrifugal tendencies among the diverse ethnic groups through the policy establishing homelands or Bantustans.⁷ At the moment there are 10 Bantustans. Even though the Bantustans are economically unviable, the ruling elites in Bantustans have got used to the idea of enjoying a measure of autonomy from the central government functioning from Pretoria. For instance, all the 10 homelands have police forces while four homelands are maintaining their own army. If the powers that be choose to abolish homelands, the vested interests benefiting from centrifugal tendencies are likely to oppose any moves towards abrupt abolition of homelands.

Briefly, despite the unequivocal intentions of practically all the major parties to abolish the policy of racial discrimination and apartheid, the hangover of the system of apartheid will continue to affect post-apartheid regimes in South Africa in the foreseeable future. Hence, the ongoing process of change through negotiations in South Africa needs to be appraised against the backdrop of this uncomfortable reality

UNDERSTANDING THE PROCESS OF NEGOTIATIONS

The mainstream of the current process of change through negotiations has been represented by F. W. de Klerk and Nelson Mandela. This can be explained by the fact that the former leader has been able to carry the ruling party as also the majority white community with him whereas the latter leader, with his pragmatic stances, has been able to muster the support of the ANC which has been the principal opposition party. Both de Klerk and Mandela have drawn the support of all the major political parties to establish a democratic polity in South Africa through protracted negotiations among concerned parties.

In this context, the Convention for a Democratic South Africa (CODESA) held in December 1991 at Johannesburg can be treated as a milestone in the evolution of democratic processes in South Africa. The convention has unleashed a process of formal negotiations between the de Klerk regime and the representatives of non-white political parties. It also could prepare a ground for the establishment of a multi-party democracy, universal adult suffrage, non-racial state, and justiciable Bill of Rights. The Declaration of Intent adopted by the CODESA I of December 1991 was signed by 19 out of 21 participating parties.⁸ In general, the de Klerk regime as well as the ANC have continued to bank on the negotiatory process, initiated through CODESA, and consolidate it by bringing as many parties and groups as possible within the purview of negotiations. However, the mainstream represented by CODESA has had its

share of opponents among the white conservatives and black radicals.

To begin with, the Conservative Party (CP) led by Andre Treurnicht and Koos Vander Merwe had emerged as the significant opponent of the entire process of reforms initiated by the de Klerk regime. The diehard members of the CP were dreading the nightmare of black domination in post-apartheid South Africa. With its support base among small farmers, white blue collar workers, small traders, shopkeepers, the army and the police force, the CP was desperately keen to cling on to classical structures of apartheid to defend the privileges of its sympathisers. However, with the victory of de Klerk line in an all white referendum of March 17, 1992, the CP also is committed to end apartheid in principle. Such commitment has not suppressed the voice of the supporters of apartheid altogether. In fact, Volksunie a break-away group of five M.P.s from CP formed under the leadership of Andries Beyers is determined to negotiate a separate homeland for Afrikaners. By identifying areas where Afrikaners speaking people constitute majority, the Volksunie group wants to build a homeland for Afrikaner community. Its renegade team of white right wingers has already established contacts with chief Buthelezi of IFP and Lucas Mangope, chief of the Bophuthatswana homeland

In addition to the opposition from some of the erstwhile members of the CP certain neo-Nazi groups like the Afrikaner Weerstand Beweging (AWB) have also been opposing the negotiatory settlements through CODESA. Even if the neo-Nazi groups like the AWB have no mass base they are capable of disrupting the ongoing process of dialogue in South Africa. The alleged involvement of the neo-Nazi extremists as well as an M.P. of the Conservative Party in Chris Hani's murder have offered an evidence of the disruptive capabilities of the white extremists. Following the murder of Hani the ANC has launched a countrywide civil disobedience campaign to pressurise the government to fix the date of non-racial general elections at an early date. The ANC campaign is likely to aggravate violence in South African society. Besides that, the ANC will have to reconcile its differences with militant organisations of the blacks to make such a campaign successful.

Among the black militant groups and parties the PAC, an age-old rival of the ANC, was initially the principal opponent of the CODESA. For instance, when the participating parties of the CODESA opted to place the agreements reached at the CODESA before the South African parliament for approval, the PAC opposed it. In essence, the PAC considers the present constitution and hence the parliament as illegal body with no locus *standi* to sit on a judgment on the agreements reached at CODESA. For, seeking the approval from the white parliament, according to the PAC, could as well boil down to giving 'whites' a veto power over agreements reached at CODESA. After

a phase of initial opposition, the ruling party has brought the PAC into the CODESA process. In addition to the PAC Azania Peoples' Organisation (AZAPO), a militant organisation of the blacks with some influence in black township, has not been party to negotiated settlements. By now, the ANC, the PAC and AZAPO have constituted a united front to fight for the interests of black majority. However, within the united front their differences over fundamental issues concerning the status of black majority are likely to surface recurrently. On the whole de Klerk and Mandela have been able to keep the negotiatory process alive despite the opposition from right wing conservatives and black militants. In the current political circumstances it might be easier for Klerk and Mandela to handle the opponents of CODESA than to handle a Janus faced movement like the IFP.

IFP AND POLITICS IN SOUTH AFRICA

The role of the IFP in the politics of South Africa has always escaped facile characterisation. In simplistic terms, the IFP can be identified as the representative of the Zulu ethnic group. The Zulus constitute approximately seven million population of South Africa. Since the principal objective of the IFP is to protect and promote the interests of Zulus the IFP has a built in sectarian or even separatist component. The separatist tendencies of the IFP have served the interests of successive racial dictatorships which aspired to execute the policy of apartheid. Moreover, the ruling white minority has often tried to co-opt the IFP within the larger scheme of constructing a stable apartheid state and use it as an instrument to combat the ANC-led anti-apartheid forces.

Despite the apparent collaboration between the IFP and successive apartheid regimes it would be futile to dub the IFP merely as a tool of the white minority. For, the IFP has embraced the cause of socially and economically downtrodden black populations and pleaded to get justice for them. It has also opposed the 1983 constitution which established tricameral legislature in South Africa. And occasionally it has identified itself with notions of African nationalism including those represented by the ANC. By and large the IFP has opted to promote the interests of blacks, in general and the Zulus, in particular within the framework of South African capitalism. Hence the IFP has also opposed sanctions against apartheid. The IFP leaders like Buthelezi sincerely believed that such sanctions will have detrimental effect on the financially poor black populations.

It would be easier to understand the complexities of the IFP if it is placed in the context of South Africa's social history.¹⁰ In fact, the Republic of South Africa is an amalgam of diverse racial and ethnic groups. The Zulus who form an important social base of the IFP have been quite chauvinistic about the Zulu identity. Since the beginning

of this century the Zulu nationalists have resurrected, periodically, the memories of pre-colonial past in the Zulu psyche to underline the significance of the Zulu identity. In contemporary South Africa, the Zulus are quite capable of advancing their claims for separate nationhood on the basis of their exclusive identity. The IFP is getting support from the Zulus located in the rural areas of Natal whereas in the urban areas the ANC still has its sympathisers among the urban Zulus. In any case, owing to its tangible support, the IFP is a force to be reckoned with and the ANC and the NP are forced to reconcile with the growing strength of the IFP.

There has been an obvious ideological rivalry between the IFP and the ANC. By drawing a substantial support from the Zulus the IFP plans to promote free enterprise in South Africa under a federal structure. Because, in the IFP's perceptions only strong regions and a weak centre can protect the Zulu identity. Before facing the elections, the IFP would like to ensure that the constitution of post-apartheid South Africa will have a federal structure. In contrast to the IFP, being a left-oriented and a broad-based emancipatory movement, the ANC stands for nationalisation of key sectors including mining, defence and banking under greater centralisation of state power. Broadly a unitary state might serve the objectives of the ANC. To put it simply, the inclusive and all encompassing character of the ANC and its consequent urge to bring South African society under a centralised state is being perceived as a threat by the exclusivist and sectarian IFP. In order to counter the ANC's urge to eclipse and dominate state and society the IFP has sought support from the de Klerk regime in pursuing its retaliatory moves *vis-a-vis* the ANC. In the process, South African politics and society during the last few years has witnessed intra-black civil war leading towards the loss of several hundred lives. The civil war is replete with violent and protracted clashes in the black townships between the IFP and the ANC supporters.

The clashes between the IFP and the ANC, in their turn, have placed the de Klerk regime in a better bargaining position. The de Klerk regime, while exploiting its bargaining leverage, has opted to side with either the IFP or the ANC with reference to the interests of white community. This point needs to be driven home with the support of three concrete and significant illustrations. First, by now there is abundant evidence to prove that the present regime has resorted to the tactics of divide and rule in perpetuating intra-black violence. As the process of violence was unfolding itself, there was a scandalous declaration from the government about its financial support to the IFP, mainly because the interests of the government and the IFP were converging on the issue of lifting the sanctions against South Africa.¹¹ Incidentally, the ANC was then a staunch advocate of sanctions against South Africa. Second, apart from using the IFP to serve its own purposes, the government has actively

tried to weaken the ANC with the aid of the military. In this context, the disclosures of the Richard Goldstone commission are worth mentioning.¹² The Goldstone commission of inquiry, dealing with prevention of public violence and intimidation, was set up to probe into the activities of military intelligence. Much to the embarrassment of the government, the commission underscored the role of senior officials of South African Defence Forces (SADF) in fighting the opponents of the governments like the ANC through tricky and foul means. Third, in the Boipatong massacres of June 1992 over 40 ANC men were killed by the IFP supporters in black townships.¹³ As a retaliatory move the ANC withdrew from the process of negotiations. In view of the strength of the ANC and the de Klerk regime's keenness to reopen negotiations with the opposition, the government took measures to contain the armed IFP supporters. But correspondingly, as was alleged by the IFP, it did not ban *Umkonto We Sizwe*, the underground army of the ANC.

In view of these three above stated illustrations it can be argued that the IFP is likely to play a significant role in the ongoing phase of negotiations. Partly because the ruling party has the necessary resources to use it against the ANC and partly because the separatist streak of the ever strengthening Zulu based ethno-nationalism championed by the IFP suits the interests of the white community in general. Despite its rivalry with the IFP, the ANC also is willing to keep the channels of communication with the latter. In the ultimate analysis both de Klerk and Mandela would be forced to draw the IFP in the project of rearranging the sharing of power through fresh constitutional mechanisms. While searching for a suitable constitutional framework, the deteriorating economic conditions of South Africa would inevitably arrest the attention of all the contending parties.

DETERIORATING ECONOMY AND ASCENT OF CAPITALISM

The economy of South Africa has been in a bad shape since the last decade.¹⁴ In fact, the Total Strategy (TS) which was deployed during the 80s to contain mass rebellion in South Africa and to revive the health of the South African economy failed miserably. The successive South African governments could not cope up with the growing international isolation of South Africa as well as unprecedented domestic mass upheaval against the apartheid system, simultaneously.

In order to control the domestic upheaval, South Africa was constrained to incur heavy expenditure on military and security-related areas. Also, the withdrawal of foreign capital and implementation of economic sanctions against South Africa affected its economy very adversely. President de Klerk's reforms and commitment to dismantle apartheid has to be appraised against this background. In any case, the post-apar-

held administration will inherit an economy characterised by incompetent management, over government and subordination of economic goals to political ones.¹⁵ Indeed, some of the typical maladies of a malfunctioning economy such as the growth of unemployment and inflation coupled with falling rate of growth and decline in real wages have plagued the South African economy. Thus, the model of racial capitalism that grew under the aegis of the apartheid state has been under considerable strain during past few years.

It was in this context that the worst hit industrial houses began to perceive an incompatibility between the growth of private enterprise and the policy of racial discrimination. And the leading lights of some of the top industrial houses such as Henry Oppenheimer of Anglo-American had openly started opposing the policy of racial discrimination. In a word, the capitalist classes developed vested interests in stage-managing the unceremonious exit of racism from South Africa. Furthermore, political stability has been one of the essential prerequisites to arrest the downward slide of the economy. And political stability could be attained only by co-opting all the diverse racial groups as well as classes in the development process. This would be tantamount to building a project of welfare capitalism of its own kind. Indeed, the project of welfare capitalism is already in the process of becoming. For, if the capitalist classes have been willing to liquidate racism to co-opt segments of diverse racial groups, the ANC and its ally the SACP are gradually toning down their accent on the nationalisation of key industries in the near future. Of course, the ANC-SACP leadership is not indifferent to the dominant world-wide trends towards privatisation. Also, while preparing to capture power it is certainly more prudent for the ANC-SACP combine to sound moderate. Thus, it is the all-round consensus on building capitalism that is allowing South Africa to face the current challenges posed by the economy.

Irrespective of the gradual deterioration in South Africa's economy, the political atmosphere generated by reforms and negotiatory settlements has had a positive impact on South Africa's external economic ties. In the context of southern Africa, economic relations with South Africa have become more acceptable to its hostile neighbours. South Africa has already signed an oil deal with the Angolan government involving 100 million barrels of oil per year. Also, De Beers Consolidated Mines of South Africa and its Swedish offshoot De Beers Centenary A are drawing Angola's diamond mining parastatal, namely, Indimama, into a central selling organisation.¹⁶ They are also trying to obtain prospecting rights in Tanzania. South Africa has reassured Mozambique of preferential trade agreement whereas Zambia has lifted the ban on South Africa on transport routes. Zambian Industrial and Mining Co-operation and South African

Trade Organisation are co-operating in the areas of mutual interest. In the East Africa, Kenya has licensed South Africa Airways to begin regular weekly flights to Nairobi to facilitate tourism and trade. On the overall African scene some of the moderate pro-west states like Nigeria, Ivory Coast and Gabon are favourably disposed towards entertaining economic ties with South Africa.

Thanks to the pace of reforms, the international isolation of South Africa has almost ended. Among the developed countries Britain was half-hearted in imposing sanctions and it lifted them as soon as the ANC was unbanned. The US has also formally lifted sanctions and the US aid is flowing into South Africa after March 17 referendum. Since the US and European Community (EC) states have lifted seven-year-old ban on oil sale to South Africa, it would help the latter to save its resources. Japan and EC countries like France and Germany are consolidating their ties with South Africa whereas Russia and India have decided to entertain economic and trade ties with South Africa. Although the economic sanctions are lifted the UN mandated ban on trade in weapons, military related goods and nuclear co-operation on South Africa still continues. To win credibility on the military front the de Klerk regime has already signed a nuclear non-proliferation treaty in 1991.

The gradual end of isolation of South Africa in African and international affairs would offer an opportunity to South Africa to organise and consolidate its capitalism on non-racial lines. Organising its capitalism on non-racial lines is crucial because the international financial institutions like the World Bank and the International Monetary Fund (IMF) have put a ban on borrowings from South Africa till the interim government takes over. Till South Africa gives up apartheid and racism the IMF is unlikely to change its policy. Since its economy is in shambles South Africa would desperately require loans from the IMF and the World Bank. In essence, capitalism in South Africa is likely to get organised with the assistance of international financial institutions once it sheds the load of apartheid and racism.

CONCLUSION

South Africa is undergoing a difficult phase of transition that involves rearranging the mechanisms of sharing power among its citizens through a new constitutional framework. Although the new constitution will have done away with the apartheid system, in principle, the legacy of apartheid system will continue to survive in post-apartheid South Africa. While working out a negotiatory settlement, de Klerk and Mandela have opted to associate all the major parties including the IFP. Despite occasional deadlocks in the process of dialogue the contending parties are likely to arrive at some agreements over most of the contentious

issues of governance. Such agreements, in their turn, would carry legitimacy owing to the majority support. The newly legitimised agreements would be executed due to the consensus among the contending parties on development of some form of capitalism. Indeed, capitalism without racism can as well act as a catalyst in stimulating the developmental process under a democratic polity.

Notes

- 1 See, *Africa Report*, Vol 36, No 3, May-June 1991, p 5.
- 2 For a comprehensive understanding of the functioning of apartheid see Philip Frankel, Noam Pines and Mark Swilling, *State, Resistance and Change in South Africa*, Croom Helm, New York, 1988.
- 3 See, Richard Leonard, *South Africa At War*, Lawrence Hill and Company, Connecticut, 1983, pp 131-160.
- 4 *Africa Report*, p 6.
- 5 To get an idea of racial inequalities see different tables computed in Ann Seidman, *The Roots of Crisis in Southern Africa*, Africa World Press, Trenton NJ, 1984, pp 38-40.
- 6 Patrick Laurence, 'Land and the Landless' *Africa Report*, Vol 36, No 3, May-June 1991, pp 31-34.
- 7 Among the homelands, four homelands, namely, Venda, Ciskei, Transkei and Bophuthatswana were declared independent and self-governing. Apart from South Africa no other state recognised these four Bantustans as independent states.
- 8 The two parties, namely, the IFP and Bophuthatswana government, despite their agreement with Declaration of Intent in principle, had refrained from signing it. Also, the Conservative Party (CP) the Pan African Congress (PAC), the Herstigte National Party the Afrikaner Weerstand Beweging (AWB) and Azania Peoples Liberation Organisation (AZAPO) were kept out of the CODESA I.
- 9 See, *Keessings Record of World Events*, Vol 38, No 10, October 1992, p 39128.
- 10 See a refreshing interpretation of Zulu separatism in Adam Ashforth, 'Reconstructing An Imperial State' *Dissent*, Summer 1992, No 291, pp 370-77.
- 11 In order to propagate the idea of lifting sanctions against South Africa the IFP reportedly received amounts to the tune of \$ 100,000 to organise political rallies from November 1989 to March 1990. Subsequently the secret funding of the IFP was cancelled.
- 12 See, *African Recorder*, Vol XXXII, No 1, January 1 to 14, 1993, p 8857.
- 13 See, Patrick Laurence 'Buthelezi's Gamble', *Africa Report*, Vol 37, No 6, November-December 1992, pp 13-18.
- 14 See, *The Economist*, March 20-26, 1993, 'A Survey of South Africa—Survey', pp 16-20.
- 15 Ibid p 19.
- 16 Colleen Lowe Morna 'The Pariah's New Pals', *Africa Report*, Vol 36, No 3, May-June 1991, pp 28-30.

"GOING

FROM



STRENGTH

TO STRENGTH"

**SPEECH BY SHRI Y.R. GHORPADE,
CHAIRMAN, THE SANDUR
MANGANESE & IRON ORES LIMITED
AT THE THIRTY-NINTH ANNUAL
GENERAL MEETING HELD ON 13
SEPTEMBER 1993**

Ladies and Gentlemen,

I extend to you all a very cordial welcome to the Thirty-ninth Annual General Meeting of the Company.

2. The sales turnover and profit of the Company during 1992-93 were Rs.119 crores and Rs.5 crores, respectively (after providing interest of Rs.5 crores and depreciation of Rs.1.6 crores), which is broadly comparable with its performance during the previous year. It may however be recalled that the power tariff was increased from 95 paise to 135 paise per unit from October 1990 and to 185 paise per unit from August 1992. It has now

"The Company has also taken significant steps to diversify into the electronics field, which undoubtedly has a very bright future. The investments that the Company has made in all these developments will considerably strengthen its base and improve its prospects in the years to come."

been once again increased from 185 to 220 paise per unit with effect from August 1993, which amounts to an increase of 130 percent in a period of less than three years. The Company has been able to survive this steep and indiscriminate increase in power tariff mainly because of its captive mines at Deogiri which is able to produce adequate quantities of the right grade of manganese ore for its ferroalloys plant at Vyasankere, near Hospet, apart from the Company's long tradition of professional management and excellent labour relations. However, the time has come when a national view has to be taken with regard to the tariff rates appropriate for power-intensive industry from the point of view of their growth and economic viability. In the export market, Indian ferroalloys can be competitive only if the power tariff is reasonable and other essential inputs are available at internationally competitive rates. Efficiency in management and up-to-date technology alone cannot ensure this. Therefore, it is imperative that state



electricity boards do not take such decisions unilaterally and resort to frequent increases in tariff rates for power-intensive industries without paying adequate attention to efficiency in generation and distribution of power at equitable rates to different categories of consumers, avoiding undue subsidies to some and unbearable burdens on others.

3. It is a matter of satisfaction that the manganese ore production in our mines at Deogiri, near Sandur, has crossed three lakh tonnes in 1992-93 which is an all-time record for our mines in the last 40 years. What is equally significant is that the labour productivity has increased about two-and-a-half times in the last five years as a result of appropriate mechanisation in the removal of overburden, enabling greater access to ore bodies whose average manganese content has increased from 35 percent in 1974 to nearly 39 percent at present, including nearly a lakh tonnes of ferromanganese grade ore being supplied to our Metal and Ferroalloys Plant. This has enabled the Company to progressively improve the real wages and living conditions of its 2800 employees, with a variety of welfare services in the field of education, health, housing and training in skills for better and more gainful employment. The Company pays special attention to preservation and growth of an environment conscious culture. Apart from its massive tree planting programme, the Environmental Management Plan (EMP) prepared by the National Environmental Engineering Research Institute, Nagpur (NEERI) is being enthusiastically implemented. The Company has a long history of safe and scientific mining. At a recent function held at Delhi, the Company received from the President of India, Dr. Shanker Dayal Sharma, both the first and second National Safety Awards for its Deogiri and Subbarayanahalli Groups of Mines, respectively.

4. Keeping in mind the availability of predominantly low grade manganese ore in our mining concession, with an Mn content ranging from 30 to 32 percent, the Company has launched on a vital R&D project to upgrade these ores significantly. A pilot plant is being set up at our Metal and Ferroalloys Plant at a cost of about Rs.4.5 crores to establish the parameters for optimum improvement of the Mn:Fe ratio in our ores by a process of roast reduction and magnetic separation which is considered to be most suitable for this purpose. Work on this pilot plant has already been started and will be completed by January 1995. Based on its results, every effort will be made to set up a commercial scale beneficiation plant at a cost of about Rs.100 crores. This would not only ensure continued supply of ferromanganese grade ore to our ferroalloys plant but will also open up possibilities of supplying sinter to other ferroalloy production units within the country and abroad. The beneficiation of the Sandur low grade manganese ores is of prime importance to SMIORE and is of national significance.

5. Pollution control equipment, with Flakt Swedish technology using reverse air bag house filter system, is being set up at our Metal and Ferroalloys Plant at a cost of about Rs.9 crores to ensure that the dust content in the smoke from our three furnaces producing manganese alloys and ferrosilicon is well within internationally acceptable standards. Pollution control systems for two of our furnaces have already been commissioned, and for the third will be completed by December 1993. This is a major achievement and reflects our commitment to a clean environment.

6. The Company's plans with regard to diversification, especially in the field of electronics, have made much head-way. Sandur Microcircuits Limited to produce resistor networks for export has been established at a capital cost of about Rs.9 crores and is expected to go into production shortly. This 100 percent export oriented unit could also cater to the internal demand by way of import substitution. Capacity of this unit would be about 100 million pieces per annum and could be further expanded in stages. This unit has been set up at Sandur in collaboration with Rawnat Electronics of Singapore who are the market leaders in this field in the international market.

7. Sandur Laminates Limited, which is also promoted by SMIORE, is being established at Sandur at a capital cost of about Rs.60 crores, in collaboration and buyback arrangement with West Coast Enterprises, California, USA. This will be a 100 percent export-oriented unit using the latest technology. Work on this project has already commenced and is expected to be completed by early 1995. Copper clad laminate is a basic raw material required by the electronics industry for manufacture of printed circuit boards and will have a growing demand both in the country and abroad. Sandur Laminates's production capacity will be about 8 million sq.ft. of copper clad laminates in the first year and increase to 20 million sq.ft. per annum in 4 to 5 years. This will be the largest and most modern copper clad laminate plant in India and comparable to the best in any part of the world.

8. The educational and training infrastructure already created at Sandur over the years will play a crucial role in providing suitably trained manpower for

SMIORE'S training institute provides training facilities in the field of welding, carpentry, fitting, auto repair etc., with a view to strengthen employability. Recently, a modern computer centre has been set up which is recognised by the Department of Electronics Accreditation for Computer Centre of the Government of India. This computer centre is one of the best of its kind in the country. The Sandur Kshala Kala Kendra has also been very successful in promoting traditional skills such as mirrorwork and embroidery, tailoring, stone and wood carving, Kithal painting and khadi.

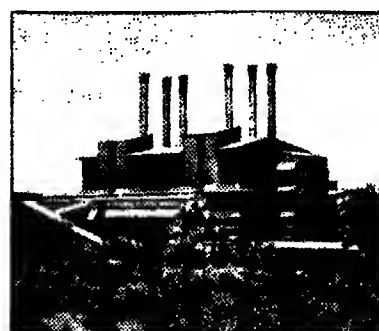
9. SMIORE has come a long way over the last four decades, from a private limited mining company in 1954 to a public limited company in 1964 which has not only greatly expanded its mining operations but has established an electro-metallurgical industry producing ferroalloys, including ferromanganese using our own manganese ore. Ferroalloys is in the core sector as its supplies are essential for steel production which has to expand in the country.

The Sandur Manganese & Iron Ores Limited



Registered Office: 'Lohadri Bhavan', Yeshwantnagar 583 124, Bellary District.

the industries coming up in this area. The Sandur Polytechnic, started in 1988, is a pioneering effort to provide modern technical skills to rural boys and girls in disciplines such as mechanical engineering, electronics & telecommunications and computer science. It is one of the best equipped polytechnics in the State with a dedicated and experienced teaching staff, and students admitted without donation on the basis of their merit and aptitude, giving adequate weightage to the rural areas. The polytechnic is located at Yeshwantnagar, near Sandur, and has had excellent results with several students getting distinction.



Substantial investments are being made to expand and modernise existing steel units and to set up new ones. Hence, our ferroalloy production, supported by our mines, has a promising future. The Company has also taken significant steps to diversify into the electronics field, which undoubtedly has a very bright future. The investments that the Company has made in all these developments will considerably strengthen its base and improve its prospects in the years to come.

10. I wish to express my appreciation of the good work put in by all the employees of the Company. I am grateful to all my colleagues on the Board, the financial institutions and banks for their valuable guidance and support.

Thank you.

Yeshwantnagar Y.R. GHORPADE
13 September 1993

NOTE: This does not purport to be a record of the proceedings of the Annual General Meeting.

Democracy, on a Scale of 10

Arvind Sivaramakrishnan

Democracy and Development by Axel Hadenius; Cambridge University Press, Cambridge, 1992; xi + 218.

AXEL HADENIUS, of the department of government at the university of Uppsala, opens by saying that this book started as "a review of theories and empirical studies concerning the requisites of democracy in the third world" (p 1). He expresses an understandable dissatisfaction with the state of scholarship on the subject; different researchers have used different indices of democracy, and many studies have taken their data directly from the available data catalogues. One result is that researchers have taken the underlying criteria, the catalogues' principles for the classification of the data, for granted, and have spent more time on strictly methodological issues such as survey techniques and the selection of indices. A second, and more important, result is that it is simply not clear what the information really means (pp 1 and 6).

Now that could be said of an enormous number of empirical studies in the social sciences, but Hadenius finds this problem particularly severe in analyses of government in the third world—for "it is there that we find the greatest variation with respect to democracy" (p 2). Accordingly, Hadenius examines 132 countries in Latin America, the Caribbean, Africa, Asia and Oceania; he excludes the OECD states. His overall findings are shown in a table which combines his assessments of several factors in each state. These factors, or indices of the level of democracy, are things like free and fair elections, freedom of association and organisation, freedom of expression, and the extent of political violence and oppression (pp 51-71). The final figures are listed with states graded from one to 10 according to the level of democracy which emerges from the number-crunching.

The next task is to explain the results—for example, to explain why on Hadenius's account Lesotho, at 3.5, has a lower level of democracy than Barbados, at 10.0. Hadenius provides several correlations between the level of democracy and what he counts as explanatory factors, such as levels of socio-economic development, trade dependency, cultural or ethnic fragmentation, the duration of the colonial period, military expenditure, literacy, the size of the public sector, and so on (pp 75-142). If for the moment we ignore the problems posed by this type of inquiry,

some of the findings are quite interesting. For example, Hadenius finds that the "size of the public sector, according to the measurements which we applied, has virtually no impact on the level of democracy in the third world"—and this despite the widespread allegations and evidence, which Hadenius acknowledges, that a large public sector in the third world means clientelism, corruption, and weak and incompetent administration (p 137). Another finding of interest is that in the overall light of the explanatory factors Hadenius cites, there is no significant difference between former French and former British territories in their respective levels of democracy today (p 133). A third finding is that a linear relation obtains between literacy rates and levels of democracy, and that the wide availability of broadcast media does not compensate for low literacy rates in this regard (pp 84-89). (Hadenius does find, though, that literacy rates are not in and of themselves crucial to the level of democracy in any given state, which might explain why India ranks high on Hadenius's scale despite a literacy rate which is a national disgrace. It might also bear out Aristotle's insight that to be a speaker of language is to be a *zoon politikon*.)

Inevitably, there are problems in the interpretation of the data, which Hadenius, like other mainstream political scientists, seems to have obtained from the available reference materials (Appendix B, pp 164-68). For example, he finds that high levels of military involvement in politics are severely inimical to democracy, and that the civilian governments which succeed military regimes are themselves rarely paragons of virtue (p 140). Yet Hadenius, instead of looking at the character of military involvement in government, attempts only to correlate levels of expenditure on the military with levels of democracy in given states. One problem arising is that it is not clear how India, which spends enormous sums on the military, still comes to rate at a very high 9.0 out of 10 on Hadenius's final figures.

These questions of interpretation are, however, only apparently technical; they are rather the epiphenomena of philosophical questions which Hadenius has to contend with despite his apparently transparent positivist method. That his method

is positivist is abundantly clear. Right at the outset, struggling with the idea of democracy, Hadenius talks of the relation "between the concept and its reference, that is its equivalent in the world of the senses". Later in the same struggle, he talks of "the factual matters of politics" as though these were self-subsistent and self-evident (pp 27-28).

The attempt to sustain this positivist enterprise is, unsurprisingly, incoherent, and it also conceals, if inadvertently, a campaign for a particular conception of politics. The positivist epistemology precludes any recognition of the possibility that part of politics itself consists in attempting to establish what it is that we see. Watching the Babri Masjid turned into rubble, we may well see different things—a savage blow to the very idea of the Republic of India, the triumph of meticulously-organised violence seeking to annex contemporary Hinduism, the repossession of a purported birthright by an allegedly dispossessed people, a mob beyond the control of their own demagogues... What would it mean to appeal to 'factual matters' here in the sense in which Hadenius conceives them?

That Hadenius is campaigning for a particular type of politics becomes clear anyway, but he does not conduct the campaign very well, even if the relevant passages are the most fertile and interesting in the book. For example, Hadenius spends some time rejecting participative conceptions of politics, mainly on the consequentialist grounds that the results hoped for by proponents such as Benjamin Barber and Carole Pateman rarely materialise; as evidence he gives the fact that in Sweden, where over 90 per cent of the electorate vote in elections, only a quarter of the population know whether or not the budget deficit has increased (p 18).¹ (It has been said of India that even in Delhi and Bombay only some 18 per cent of the population are aware that a new economic regime has been introduced.²) Similarly, Hadenius rejects C B Macpherson's socialistic proposals by pointing to the historical record of the Soviet Union (p 25). But appealing to facts and history will not serve his purpose here. First, that vast proportions of whole populations are ignorant of their respective budget deficits can signify more than Hadenius seems to realise; it could mean ordinary people do not want to know, or that they do not care, or that politicians do not want them to know more about the condition of the national budget—or it could be an index of an appalling political condition, one in which central issues

facing the state are kept out of sight of the public. It could even mean that the public are far more willing to live with budget deficits than their so-called political representatives.

Secondly, both rejections—of Barber and Pateman, and of Macpherson on historical or consequentialist grounds—ignore the fact that the historical record does not exhaust the possibilities inherent in ideas. The type of argument from history which Hadenius adduces here could equally well require the rejection of liberal democracy for its collusion with capitalism and for its legacy of imperialism and racism.

Yet Hadenius continues with his campaign for contemporary liberal democracy. He rejects direct democracy—without saying what that means—for the historical fact of participation rates as low as 10 per cent in ancient Athens. His criticism thereof is that those who do participate are therefore “deeply committed” and unrepresentative of the demos. Their rule “would hardly guarantee a fair reflection of the preferences of the people” (pp 25-26).³

Now several problems arise here. First, Hadenius merely says, without argument or evidence, that “One advantage of the ordinary representative form is that it sets a very low activity threshold, enabling even the moderately interested to participate” (p 26). He gives no evidence either that participation rates in today’s liberal democracies are any higher than they were in Periclean Athens or that contemporary politics is the sort of thing ordinary people want to participate in. Secondly, although Hadenius appears to have no conception of politics as other than the expression of the preferences of the people, he is uncomfortably aware of the problems this idea can cause, and calls for the safeguarding of minority rights as well as restrictions on government’s and politicians’ competence: “...a defence of the principles of political freedoms constitutes a protection for the meaningful exercise thereof” (p 30). And thirdly, although Hadenius is unhappy with existing definitions of democracy he ends up having to supply one of his own: “I would maintain that it is indeed possible to give the concept of democracy a clear content, at least at its heart.” The definition which follows is “based on a core formula concerning the principles of democracy (which I believe to be generally accepted)” (p 6).

That Hadenius can conceive of political freedoms only in terms of individuals’ opinions and projects is neither here nor there. For in effect, he is both reifying the existing practice of liberal democracy into a normative prescription and engaging not in empirical political science but in politi-

cal philosophy—for his theme here is no less than the creation and maintenance of political space. Significantly, he says nothing about who controls and decides which issues even make it to the political agenda, of the inequalities of power and resources which effectively ensure the control of political space by the wealthy and the powerful.⁴ And as to definitions, he seems not to see that no definition will serve here, that they will all leave space for some significant element to slip through the net. Hadenius apparently does not appreciate that an argument from intelligibility is likely to relieve him at least of that problem.

Now the issues I have cited above have led to considerable modifications of empirical political theory over the years, and it is somewhat surprising to find the activity in its unregenerate form pursued quite so emphatically in this day and age. Even on its own terms enough evidence could be put up to undermine its findings. Simply by looking around us we can be led to wonder if India, with its colonial and now apparently infinitely corrupt and manifestly incompetent administration, its hugely powerful elites and its terrifying rural violence and suffering, its travesty

of a judicial system, its increasingly remote and paralysed politicians, is more than barely intelligible as a democracy. Never mind, Hadenius says, we are all right; we get nine out of 10 in his test. That we do so is yet more evidence of why mainstream political science seems to have so little to say about the deadliest problems of our time.

Notes

- 1 See also Benjamin Barber, *Strong Democracy*, Berkeley, Calif: University of California Press, 1984, and Carole Pateman, *Participation and Democratic Theory*, Cambridge: CUP, 1970.
- 2 Jeremy Seabrook, *New Statesman and Society*, December 11, 1992.
- 3 See also p 24: “All we can say in this regard is that an attempt should be made to create the social organisation (etc) which the majority of the citizens want.”
- 4 For an outstanding articulation of the problems of empirical political theory, see David Held, *Political Theory and the Modern State*, Cambridge: Polity, 1989, pp 56-64. See also Quentin Skinner, ‘Empirical Theorists of Democracy and Their Critics: A Plague on Both Their Houses’, *Political Theory* 1 (1973), pp 287-305.

Anchoring Ambedkar in Liberalism

Gopal Guru

Dr B R Ambedkar: The Emancipator of the Oppressed edited by K N Kadam; Popular Prakashan, Bombay; pp 247, Rs 225.

K N KADAM, the editor of the book under review has been taking an active interest in steering the intellectual activities which otherwise have become quite dormant among the dalit community in Maharashtra. Kadam has been instrumental in establishing the Buddhist Forum and Research Institute, on the lines of which the Ambedkar School of Politics started by young admirers and followers of Ambedkar at Pune in 1945.

The present book has been brought out under the auspices of this Buddhist forum. Unlike the Institute of 1945, this institute claims to be politically neutral and is devoted to academic and intellectual pursuits. Kadam has maintained a certain political neutrality in this volume in one sense; barring R R Bhole, other contributors of this particular volume are not representatives of any formal political organisation.

The book is divided into four sections. The first two parts deal with the philosophy of Ambedkar and the rest deals with Ambedkar’s role in politics concluding with recollections of Ambedkar. Although the overall appearance of the book looks attractive there is remarkable variation in terms

of internal logic and theoretical sophistication in the articles.

For example, the articles by A R Biswas and B M Ambhaikar on Ambedkar’s contribution to jurisprudence discuss except jurisprudence of Ambedkar. Both these articles fail to bring out a systematic and comprehensive perspective of jurisprudence which was one of Ambedkar’s major interests. Instead, Ambedkar makes only ‘guest appearance’ either with Papinon of Ancient Greek (Biswas p 31) or with Bentham in modern time (Biswas p 40). Thus, we come across in these articles such novel comparisons. The point is that are such comparisons valid and meaningful? In terms of the time factor and the context we do not get any insight which is often useful for developing any general system of ideas. Therefore, the comparison of Ambedkar with Papinon becomes out of context. Similarly, Biswas’s attempt to compare Ambedkar with Bentham is also untenable because in Bentham’s ‘utilitarianism’ the element of ‘calculation’ (gain and profit) plays an important role while in Ambedkar’s praxis the element of ‘sacrifice’ for revolu-

tionary cause is supreme.

Similarly, Lokmitra, who begins his piece on Buddhism in the modern world with the personal note, compares Ambedkar with Sangharakshita, the chief of Trailokya Bouddha Mahasangha Sahayak Gana (p 135). In such a comparison between the two possible? Both these leaders under reference share different concern at the theoretical and practical level. While Ambedkar's neo-Buddhism is revolutionary in content, political in motivation and radical in form TGBMSG's Buddhism, on the contrary, gives emphasis to reforming a person by reforming the minds through meditation. However, one may agree with Lokmitra's observation regarding the role of the Buddhist monk in activating the Buddhist movement in Maharashtra. It is true that the purpose of Ambedkar's revolutionary Buddhism is defeated because the Buddhist monks and Buddhist institutions for variety of reasons, have failed measurably in transmitting the message of revolutionary neo-Buddhism of Ambedkar in Maharashtra.

There is one more rather timid attempt by M P Mangudkar, who in his article is trying to compare Gandhi with Ambedkar. Mangudkar argues that Ambedkar and Gandhi were both critical of communists for their neglect of caste discrimination among the industrial workers (p 169). While Gandhi may have been genuinely concerned about the untouchability question, but how concerned was he about working class unity? Was Ambedkar less concerned about working class unity and hence totally against the communists? Mangudkar seems to give this impression in his article... Ambedkar has given the answer to the first question. In one of the editorials in *Janata*, he says, the efforts of Gandhian to form an alternative trade union movement based on the mazdoor mahajan and the 'trusteeship' principle were causing a "split in the working class movement" (*Janata* April 8, 1937). (Trusteeship embodied Gandhi's opposition to autonomous working class organisations and struggle and reflected his belief that moral reform of property owners would lead to their eventual paternalistic trusteeship of the rural-urban labouring classes.)

Secondly, unfortunately for Mangudkar, in Ambedkar's writing there is sufficient evidence which shows how concerned Ambedkar was about the working class unity and the communist philosophy. For example, Ambedkar tried to forge dalit and communist alliance against the 'khots' (landlords) and the urban capitalist. Moreover, his inclination towards communist philosophy was also evident when he said, "I have definitely read studiously more books on the communist philosophy than all the communist leaders here. However beautiful the communist philosophy in those

books, still it has to be seen how useful it can be made in practice. The test of this philosophy has to be seen in practice. And if work is done from that perspective, I feel that the labour and the length of time needed for winning success in Russia will not so much be needed in India. And so in regard to the toilers' class struggle, I feel communist philosophy to be closer to us" (*Janata* January 15, 1938). This is not the only quotation; there are a number of other similar ones in Ambedkar's writings. Therefore, Ambedkar's criticism towards communist practice in India was of a constructive nature and was not disciplining as Mangudkar seems to be suggesting in his article.

However, there are quite a few articles in the book which give useful information about Ambedkar's political and educational activities. Thus, articles by R K Kshirsagar, D M Dhiwal adequately acquaint us with the political activities of Independent Labour Party established by Ambedkar while D S Gaikwad has highlighted Ambedkar's contribution to the educational development of the dalits in Maharashtra. Similarly, P G Jogdand in his article has attempted to assess the role of post-Ambedkar dalit movement in promoting social change among the dalits of Maharashtra.

However, all these scholars, particularly Kshirsagar and Dhiwal put Ambedkar's politics within the parameters of the liberal constitutional framework. As we have already seen in the above section that it is possible to pitch Ambedkar's political project beyond the limits of liberalism. The political movement led by Ambedkar between 1930 and 1940 reflected the radicalisation of dalit politics in Maharashtra. It is during this decade that Ambedkar tried to organise, across the caste and region, the toiling masses—dalits, workers and the peasants. This radical mobilisation of the labouring sections was militantly articulated outside the boundaries of the parliamentary structures into the streets of Bombay on various material issues which entailed exploitation by the urban capitalists and the rural landlords.

In fact, the very emergence of the Independent Labour Party of Ambedkar needs to be understood as a part of general radicalisation that was emerging at all levels in a large part of India, as a reaction to the development within the Congress. In spite of the decision of the Congress socialists and the Communist leadership to organise within the Congress, the latter was drifting towards the right under the influence of Vallabhbhai Patel, Rajendra Prasad and Rajagopalachari. This group which was rapidly identifying with the Indian bourgeoisie and was consolidating its hold over the Congress machine. As a result, disillusionment with the Congress was increasing

among the radicalised youth, peasants and the workers in the country. The formation of the Independent Labour Party of Ambedkar was a part of this trend. However, this broad context is missing in the essays on I.L.P.

Among all the articles in the book, those by K N Kadam, D C Ahir and Bhagwan Das have successfully pitched the discussion on Ambedkar to the higher level of theoretical sophistication. Because of this those papers seem to be offering an insight in locating Ambedkar in a definite theoretical perspective. These writers particularly, Kadam has made a successful attempt to locate Ambedkar on the terrain of positivism. Thus, Kadam argues that Ambedkar's Buddhism was based on rationalism, scienticism and humanism. Kadam's interpretation of Buddhism comes closer to Comtian positivism. Moreover, Kadam and the other two writers have also argued that Ambedkar's Buddhism is based on Liberty, Equality and Fraternity. Thus, all these three writers have taken care to anchor Ambedkar within a liberal framework firmly.

Now, the question that must be raised here is that was Ambedkar's Buddhism positivist in nature? It was certainly not similar to positivism of any variety because it believed in the creation of a radically distinct social order whereas positivism treats history and society as the experience of similar people struggling with similar problems in changing circumstances. It treats history as an endless series of episodes of problem-solving or interest accommodation. Thus, it assumes a gradualist dimension. Secondly, these writers have also failed to take into consideration Ambedkar's instrumentalism while writing on Buddhism. Ambedkar had a lot of difficulty in treating Buddhism as a scientific religion as 'scientific' 'religion' is a term in contradiction. But this difficulty of Ambedkar can be understood in terms of instrumentalist logic that Ambedkar used in exposing the irrational, unscientific and therefore superstitious, fictitious nature of Hinduism.

Secondly, these writers have also missed the point that Ambedkar on many accounts had realised the limitations of liberalism. For example, take the question of Liberty, Equality and Fraternity. Ambedkar had rightly realised that in capitalist society, there is going to be an internal tension between these three values. He further argued that this tension was that between the individual good and the collective good (*Writings and Speeches of Ambedkar*, Vol 3, p 462). However, in view of the lack of internal critique among the dalits today and therefore their dangerous drift towards Hinduva and spurious Buddhism, invoking of Ambedkar's scientific Buddhism becomes imperative. This book makes a useful contribution in this context.

Employment and Structural Adjustment

A Look at 1991 Census Data

B B Bhattacharya

Arup Mitra

The 1991 Census data on employment reveal that despite a significant acceleration of the industrial growth rate during the 80s, the share of manufacturing in total employment has declined. The employment elasticity in the manufacturing sector turns out to be as low as 0.2. Further, the employment growth in the private organised manufacturing has been negative during the 80s.

Employment projections for the 90s based on the sectoral employment elasticities in the 80s reveal that there is a substantial addition to the volume of unemployment in the first two years of the structural adjustment programme. Even a very optimistic growth scenario fails to eliminate the backlog of unemployment by the end of this decade. This is mainly due to the dominance of the primary sector in the employment structure; whereas the major focus of the structural reform is on the growth of manufacturing sector.

I

Introduction

ONE of the major limitations of planning in India is that despite a conscious effort made by the planners to promote labour intensive techniques of production, the growth of employment has continuously lagged behind the growth of labour force. Although very few people can afford to remain unemployed for long, the open unemployment rate has increased overtime [Visaria and Minhas 1991, Table 5]. According to the neo-classical school the rise in the unemployment rate may be attributed mainly to the slow growth of income and the distortions in the labour market caused by the government regulations and trade unionism. The structural reform programme as initiated by the government of India recently aims at increasing the long-run growth rate of GDP through deregulation in both commodity and factor markets. It is, however, well known that such a programme may initially lead to reduction in both income and employment growth rates and thereby increase the unemployment rate in the short run. This view is now well accepted even by the strongest advocates of reform, such as, Corbo, Fisher and Webb (1992) and Bourguignon and Morrisson (1992).

In a labour surplus economy like India economic liberalisation which includes trade openness, financial openness, outward orientation (i.e., export liberalisation, devaluation) and minimal intervention in financial, goods and factor markets, is likely to raise considerably the demand for cheaper unskilled labour [Deshpande 1992]. Since much of the demand for labour is generated in the non-farm sector, the shift in the employment structure, as the experience of the newly industrialised economies (NIEs) and ASEAN countries shows, has been mainly towards this sector. Liberalisation is also taken to increase the women participation in the labour market. Viewing the 80s as the decade of deregulation, Deshpande and Deshpande (1992) argue that women em-

ployment in the manufacturing sector in India has been increasing both absolutely and proportionately. The rigidities created by the unions and the state often discourage the employers to adopt labour-intensive technology. With a declining share of fixed cost permanent workers, casualisation of workforce, therefore, turns out to be a remarkable feature of liberalisation; and feminisation of labour market viewed in this perspective, is nothing but a manifestation of casualisation.

Stabilisation and structural adjustment programme as shown by Mundle (1993) would slow down the rate of growth of income and hence employment in India in the short run. Unemployment would grow not only in response to the new entrants to the labour force in the face of a decline in employment opportunities, but as an outcome of liberal exit policy also [Singh 1993]. Several studies which demonstrate the existence of forward linkages between formal and informal sectors through recycling of waste products from large plants, subcontracting, marketing and purchase of inputs and raw materials [Nagaraj 1984, Samal 1990 and Shaw 1990], often argue that the relationship between these two sectors is one of subordination and exploitation. Hence, with liberalisation subcontracting would be enhanced which would result in further deterioration in the levels of living of the informal sector workers in particular [Nath 1992].

Visaria and Minhas (1991) analysed extensively the various rounds of NSS surveys and argued that in view of the resource crisis and other structural rigidities, the organised sector would be unable to provide a high growth rate of employment in the coming years. Therefore, a large majority of nearly 80 million persons who would join the labour force during 1990-2000, will have to find work as self-employed and casual workers. As a result, this is likely to further erode the scope of employment planning in India.

It is in this perspective that the present paper seeks to examine the relationship

between income and employment growth during the 80s and analyse its implications on structural reform programme in the 90s. Using the NSS data on employment/unemployment, the recent study of Mundle (1993) projects the magnitude of unemployment for the years 1991-92 and 1992-93. His study is, however, based on the aggregate employment elasticity and the assumed overall growth rate for these two years. It may be noted that the NSS 43rd round underestimated the employment especially in the agriculture sector, since 1987-88 was a severe drought year [Visaria and Minhas 1991]. Further, Mundle (1993)'s projection being made at the aggregate level does not incorporate the impact of the sectoral variations in terms of income and employment growth. As it would be evident from our analysis later in this paper, different compositions of the GDP growth rate would have different implications in terms of employment. It may be therefore useful to analyse

TABLE I: CRUDE MAIN WORKERS-POPULATION RATIO

	1981	1991
<i>Rural</i>		
Males	52.61	51.88
Females	16.09	18.75
Persons	34.80	35.84
<i>Urban</i>		
Males	48.53	48.57
Females	7.30	8.15
Persons	29.23	29.48
<i>Total</i>		
Males	51.62	51.00
Females	14.07	16.03
Persons	33.48	34.18

Note: All India figures exclude Assam and Jammu and Kashmir.

Sources: (1) Census of India 1981.
(2) Census of India 1991 series 1, Final Population Totals: Brief Analysis of Primary Census Abstract, Paper 2 of 1992.

the sectoral employment behaviour in the 1980s on the basis of 1981 and 1991 Census data. The sectoral employment elasticities are then used for assessing the likely impact of structural adjustment programme on employment in the 90s.

In the next Section (II), we examine the relationship between income and employment growth across sectors both at the all-India and state level. This section also analyses the employment growth pattern in the organised and unorganised sectors. The estimated employment elasticities at the sectoral level are used to project in Section III the sectoral and total employment growth in the 90s under the alternative assumptions of moderate and accelerated growth scenarios. The major findings and policy implications are summarised in the last section.

II

Employment Behaviour in 80s

ALL INDIA

Between the two sources of data on employment, i.e. quinquennium surveys of the NSS and the decennial population census, the present paper is based mainly on the population censuses, 1981 and 1991. The concept and definition of work, workforce and the reference period seem to have remained similar in both the censuses. Hence, comparisons of figures from both the census years although may not be unpermissible, it may be noted that part of the increase in the women work participation rate in the 1991 Census relative to the 1981 Census is due to better enumeration of the women workers. Table 1 on crude worker (main) population ratio indicates that the women work participation rate increased faster in the rural than in the urban areas. This is probably due to relatively more underestimation of female workforce in agriculture in the 1981 Census as compared to the 1991 Census. However, the women work participation rate in the census continues to be grossly underestimated as compared to the NSS estimates for the years 1983 and 1987-88 [see Visaria and Minhas 1991].

Table 2 presents the comparative growth rates of employment by major activities as estimated from NSS [27th, 32nd, 38th and 43rd rounds] and the population censuses of 1981 and 1991. Employment figures from population census in our analysis refer only to main workers, the marginal workers have been excluded since they are considerably underestimated in the censuses. From NSS both principal and subsidiary usual status workers have been considered. It may, indeed, be noted that because of the differences in definition and coverage, the employment figures from both these sources are not comparable.

The NSS figures reveal that the average growth rate of employment has declined from 2.80 per cent p.a. during 1972-73 to 1977-78 to 2.2 during 1977-78 to 1983-84 and 1.55 during 1983-84 to 1987-88. Among various activities, agriculture and manufacturing recorded a perceptible fall in the growth rate of employment. However, it may be noted that the growth rate for the

TABLE 2: GROWTH RATES OF EMPLOYMENT BY MAJOR SECTORS

(Per Cent Per Annum)

Sector	1972/73	1977/78	1983	1972/73	1981-1991
	to	to	to	to	Census
	1977/78	1983	1987/88	1987/88	
	NSS	NSS	NSS	NSS	
Agriculture	2.32	1.20	0.65	1.37	2.04
Mining	4.68	5.85	6.16	5.47	2.98
Manufacturing	5.10	3.75	2.10	3.61	1.30
Construction	1.59	7.45	13.69	7.23	3.93
Electricity, Gas and Water	12.23	5.07	4.64	7.06	(a)
Transport, Storage and Communication	4.85	6.35	2.67	4.65	2.56
Other Services, Trade and Commerce	3.67	4.69	2.50	3.05	4.07
Total	2.82	2.22	1.55	2.17	2.34

Note: Population census figures exclude Assam and Jammu and Kashmir (a) included in manufacturing sector.

Sources: (1) National Sample Survey (27th, 32nd, 38th and 43rd rounds)

(2) Census of India, 1981 and 1991.

TABLE 3: SECTORAL SHARES IN GDP AND EMPLOYMENT IN SELECTED ASIAN COUNTRIES

(Percentage Share in GDP)

Country	Agriculture			Industry			Services		
	1965	1980	1990	1965	1980	1990	1965	1980	1990
China	38	30	28	35	45	40	27	25	32
India	41	34	29	20	23	25	31	32	36
Indonesia	56	24	22	13	42	40	31	34	38
Korea	38	15	9	25	41	45	37	44	46
Malaysia	28	22	19	25	38	42	47	40	39
Philippines	26	25	22	28	39	35	47	36	43
Sri Lanka	28	26	24	21	28	23	50	40	43
Thailand	32	23	13	23	31	40	45	46	48
ROC*	-	8	4	-	46	44	-	46	52

(Percentage Share in Labour Force)

China	81	74(69)	(60)	8	14(18)	(22)	11	12(13)	(18)
India	73	70	67	12	13	12	15	17	21
Indonesia	71	57	53	9	13	16	21	30	31
Korea	55	36	18	15	27	35	30	37	47
Malaysia	59	42(37)	(28)	13	19(23)	(27)	29	39(40)	(45)
Philippines	58	52	(45)	16	16	(15)	26	33	(40)
Sri Lanka	56	53(46)	(48)	14	14(19)	(21)	30	33(35)	(31)
Thailand	82	71	(67)	5	10	(12)	13	19	(21)
ROC*	-	20	13	-	33	32	-	47	55

Note: Industry unless otherwise specified includes mining, manufacturing, electricity, gas and water and construction.

Source: Trends in Developing Economies 1992, World Bank, 1990 Labour force data for some countries not given in source above are taken from Statistical Yearbook of Asia and Pacific, UN, 1991. Since there is a difference in sectoral classification in these two sources the figures from the latter source are reported for both 1980 and 1990 within the parenthesis.

Data for ROC are obtained from Key Indicators of Developing Asian and Pacific Countries, Asian Bank, 1991. Industry in this source for labour force refers to only manufacturing. All others are included in services.

TABLE 4: GROWTH OF EMPLOYMENT IN THE 1980s

(Per Cent Per Annum)

Sector	Total Employment Growth (1981-91)	Public Sector	Private Sector		Total	Per cent Share of Unorganised Sector	
			Organised	Unorganised		1981	1991
Primary	2.05	2.10	-0.38	2.26	2.24	98.50	98.70
Manufacturing	1.30	2.84	-0.60	1.52	1.16	73.10	74.70
Construction	3.93	1.07	2.45	5.18	5.07	68.80	77.50
Trade and Commerce	3.99	4.75	1.26	4.19	4.09	90.50	90.90
Transport, storage and communication	2.56	1.23	2.33	3.81	3.74	54.80	61.30
Other Services	4.13	2.21	1.87	5.69	5.26	55.10	63.50
Total	2.34	2.22	0.10	2.61	2.53	89.70	90.60

Sources: (1) Census of India, 1981 and 1991

(2) Data from Employment Market Information Programme, Ministry of Labour.

period 1972-73 to 1977-78 was probably overestimated as 1972-73 happened to be a drought year. Similarly, the growth rate for the period 1983-84 to 1987-88 was perhaps underestimated since 1987-88 was again a drought year [Visaria and Minhas 1991]. The long-term growth rate of employment of 2.17 per cent p a turns out to be more or less same as the average population growth rate during the 70s and 80s. Table 2 shows that the growth rate of total employment in the 80s, as computed from 1981 and 1991 Censuses, at 2.34 per cent p a is higher than corresponding growth rates from NSS during the late 70s and 80s. As mentioned above this may be partly attributed to better enumeration of workers in 1991 as compared to 1981 Census. The employment projections for the 90s based on census data are, therefore, if at all, likely to be over rather than underestimated.

It has often been argued that the low growth of employment in India resulted from sluggish growth of income and the distortions in the labour market caused partly by the government regulations and partly by the trade unions. Advocates of this school of thought cite the evidence of east Asia where there has been a dramatic shift in the occupational structure arising from a fast growth rate of the economy through deregulation. Given the first three decades of development (1950-1980) the average growth rate of per capita income at 1.4 per cent p a in India was well below the critical minimum required for the 'trickle down' mechanism to operate. In the 80s the average growth rate of per capita GDP increased at about 3.5 per cent p a. This was achieved through partial deregulation and acceleration of the GDP growth rates of industry and services. In this context it is worth comparing the changes in income and employment structure in India with east and south-east Asian countries.

Table 3 presents the changes in GDP and occupational structure of some of the Asian countries where structural adjustments were implemented in last one/two decades. It may be noted that the occupational structure has shifted dramatically in South Korea and Taiwan where the share of agriculture in total labour force has come down to less than 20 per cent. In other Asian countries, also the share of agriculture has declined considerably although not to the same extent as in Korea and Taiwan. Even in China, there has been a significant shift in the employment structure away from agriculture towards non-agriculture, though the share of agriculture in GDP declined only marginally. In India, however, despite a significant fall in the share of agriculture in GDP over the last three decades, the proportion of workforce engaged in agriculture has not recorded any perceptible decline. Further, it may be noted that in spite a considerable rise in the growth rate of industrial output in India, especially in the 80s, the share of industry in total workforce dwindled at a low level. Some welfare implications of this dichotomy in India's GDP and occupational structure were analysed in Bhattacharya (1989) and Mitra (1991). In some of the east Asian countries, e.g. Korea and Taiwan, the

outward looking structural reforms were launched after the share of agriculture in total workforce had already declined considerably. This was one of the major contributing factors to the success of the export-led growth strategies in these countries. In other words, the surplus labour released from the agriculture was available to the manufacturing sector at a low wage which facilitated the expansion of the exports of the labour-intensive manufacturing goods [Chakravarty 1993: 140-168 and 437-462]. In contrast, the structural reform and globalisation programme in India is launched at a time when the share of manufacturing employment is very low and that of agriculture is still very high. Thus even if the structural reform programme succeeds in

accelerating the growth rate of industrial output, it would take a considerable period of time to have any impact on the overall employment growth and structure.

The overall growth rate of employment during the 80s as measured from 1981 and 1991 censuses turns out to be 2.34 per cent p a. The growth rates of employment across sectors, however, vary widely. The primary sector which bears the major brunt of employment in the economy has grown faster than the manufacturing sector (Table 4), although one would expect it otherwise keeping in view the fact that manufacturing income has grown three times as fast as the primary sector in the 80s. Employment in the tertiary sector, on the other hand, has grown much faster than that in agriculture.

TABLE 5: GROWTH RATES OF SDP AND NDP BY SECTORS (Per Cent Per Annum)

State	Primary	Manufacturing	Construction	Trade and Commerce	Transport and Storage Communication	Other Services	SDP
Andhra Pradesh	0.67	5.08	-0.30	6.58	4.97	3.24	2.73
Bihar	1.96	8.04	6.18	4.46	5.55	6.81	3.10
Gujarat	3.62	8.20	3.86	6.29	13.53	6.24	8.33
Haryana	3.81	8.79	0.03	7.72	7.02	6.82	5.73
Karnataka	2.76	7.08	3.17	20.23	5.75	6.93	4.40
Kerala	1.58	0.40	1.80	1.52	7.83	4.30	2.16
Madhya Pradesh	2.08	6.82	1.73	5.34	5.33	13.72	5.24
Maharashtra	1.67	5.94	3.54	6.31	5.57	6.60	4.95
Orissa	3.03	7.34	6.56	4.62	9.97	7.55	4.48
Punjab	5.06	9.11	1.35	4.35	6.99	3.60	5.32
Rajasthan	2.82	6.58	4.63	14.97	6.14	6.64	4.31
Tamil Nadu	1.51	3.69	3.81	5.76	8.82	5.39	4.11
Uttar Pradesh	2.36	7.80	1.91	5.06	6.08	7.74	4.27
West Bengal	5.96	3.08	1.09	2.65	2.90	6.21	4.18
All India	2.78	7.00	3.51	10.76	7.43	6.35	5.24

Notes: 1 Manufacturing is inclusive of electricity, etc.

2 At the All-India level the growth rates correspond to the period 1980-81 to 1990-91.

3 At the state level the growth rates are for the period 1980-81 to 1989-90, except in the case of Andhra Pradesh, Rajasthan and West Bengal where the figures correspond to the period 1980-81 to 1988-89.

Sources: CSO, National Accounts, 1991, Estimates of SDP, 1990.

TABLE 6: EMPLOYMENT GROWTH PER CENT PER ANNUM (1981-91)

State	Population Growth Rate	Workforce Growth Rate	Primary	Manufacturing	Construction	Trade and Commerce	Transport and Storage Communication	Other Services
Andhra Pradesh	2.17	2.29	2.12	0.97	3.81	3.46	2.66	4.01
Bihar	2.11	2.11	2.21	-2.53	-0.36	1.81	-1.51	5.77
Gujarat	1.92	2.49	1.99	2.81	5.25	3.97	2.39	3.48
Haryana	2.42	2.53	2.04	0.56	2.77	3.59	3.06	5.52
Karnataka	1.92	2.36	2.07	1.10	4.47	4.34	2.39	4.28
Kerala	1.34	2.01	1.28	0.87	4.95	3.36	3.72	3.26
Madhya Pradesh	2.34	2.18	2.00	0.76	2.05	4.21	2.35	4.55
Maharashtra	2.29	2.44	2.05	1.87	4.54	4.21	3.70	3.41
Orissa	1.83	1.84	1.57	1.40	-0.59	4.52	2.84	3.18
Punjab	1.89	2.13	1.61	1.44	4.38	3.21	2.40	3.72
Rajasthan	2.50	2.87	2.72	1.09	4.78	4.72	2.55	4.10
Tamil Nadu	1.43	1.81	1.48	0.99	3.65	2.08	2.41	4.60
Uttar Pradesh	2.27	2.44	2.16	0.93	4.36	5.52	1.48	4.32
West Bengal	2.21	2.88	2.43	2.46	5.89	4.90	3.29	3.59
All India*	2.13	2.34	2.05	1.30	3.93	3.99	2.56	4.13

Note: * Excluding Assam and Jammu and Kashmir.

Source: Population census, 1981 and 1991.

Employment in the public manufacturing has grown at a fast rate of 2.8 per cent p.a. In contrast, manufacturing employment in the private organised sector fell in absolute terms during this period. This could be an outcome of the preference of employers in the private organised sector for capital-intensive technology and/or casual workers against the high wage and highly protected permanent workers. The contrasting behaviour of the public and private organised sector needs a careful examination especially in the context of the industrial boom. The private unorganised manufacturing employment has grown rapidly to give an overall positive growth of employment in the private (organised and unorganised combined) manufacturing sector. It is well known that much of the private unorganised manufacturing employment consists of casual employment. Therefore, the overall rate of casualisation, in the manufacturing sector seems to have increased during the 80s as also argued by Deshpande and Deshpande (1992). The share of private unorganised component in the manufacturing activity, in fact increased from 73 per cent in 1981 to 75 per cent in 1991. Even in the tertiary sector, the growth rate of employment is higher in the private unorganised than the organised sector. Thus, there seems to be a general trend towards casualisation in the whole economy.

STATES

In a large economy like India, it is expected that there would be a wide variation in the growth rate of income and employment across states. As per Table 5 the growth rate of income in the primary sector during the period 1980-81 to 1990-91 varied from 0.67 per cent in Andhra Pradesh to 5.96 per cent in West Bengal. The corresponding range of variation in the growth rate of primary sector employment is, however, much more moderate—from 1.28 per cent in Kerala to 2.72 per cent in Rajasthan (Table 6). In general, in most of the states employment in the primary sector increased at around 2 per cent p.a. However, except in Bihar in all other states the share of the primary sector in total employment has declined marginally in 1991 as compared to 1981 (Appendix Table A1). Even in West Bengal where the share of the primary sector in GDP has increased from 33.7 to 36.7 per cent in 1991 (Appendix Table A2), its employment share has declined by around 2 percentage points. In contrast, while the share of primary sector in GDP has declined sharply from 58 per cent in 1980-81 to 44 per cent in 1990-91 in Bihar, its employment share has gone up during the same period. Another interesting point to note is that the share of primary sector in total employment is relatively less in agriculturally prosperous states, like, Punjab, Haryana and Gujarat. On the other hand, in the backward states like Bihar, Madhya Pradesh, Orissa and Uttar Pradesh the share of primary sector is still above 75 per cent.

Since 80s have been the decade of industrial boom, almost all states have recorded a high growth rate of manufacturing income. However, except Gujarat and West Bengal,

practically all states have recorded a sluggish growth of employment in this sector. In Bihar, manufacturing employment fell in absolute terms at a rate of 2.5 per cent p.a. In Andhra Pradesh, Haryana, Kerala, Madhya Pradesh, Tamil Nadu and Uttar Pradesh manufacturing employment grew at less than 1 per cent p.a. In most of the states the share of manufacturing in total employment has declined, the only exception being Gujarat where it has been more or less unchanged during the 80s. In a number of states, namely, Andhra Pradesh, Bihar, Madhya Pradesh, Orissa, Rajasthan and Uttar Pradesh, the share of manufacturing employment is even below 10 per cent in 1991. All this seems to corroborate the view that the industrialisation of the 80s had marginal impact on employment.

During the 80s most of the states have recorded a fairly high growth rate of income and employment in the services. In all the states except Bihar the share of tertiary sector in total employment has increased in 1991 as compared to 1981. However, the relative share of tertiary sector in total employment is still less than its corresponding share in GDP.

EMPLOYMENT ELASTICITY

Employment elasticity (measured as the ratio of employment growth rate to income

growth rate) has varied widely across the sectors and across the states (Table 7). This simple measure of employment elasticity does not take into consideration the impact of all factors other than income on employment. In the case of primary sector, the elasticity has been as high as 3.16 in Andhra Pradesh and as low as 0.32 in Punjab. The high employment elasticity in Andhra Pradesh is the result of a low growth rate of income rather than a high growth of employment. In all but three states (Andhra Pradesh, Bihar and Maharashtra), the employment elasticity in the primary sector has been less than one. Similar variations are also noted in the manufacturing sector, where it ranged from 2.18 in Kerala to 0.06 in Haryana. In Bihar manufacturing employment elasticity has been negative because of a negative growth rate of employment. Kerala and West Bengal recorded a high elasticity because of low growth of manufacturing income rather than high growth of manufacturing employment. All other states including the highly industrialised ones recorded a low employment elasticity which varied between 0.1 to 0.3.

In the tertiary sector the employment elasticity has been generally less than one. However, there is a great deal of variation across states and across various components of the tertiary sector. In general, trade and

TABLE 7: SECTORAL EMPLOYMENT ELASTICITY, 1981-91

State	Primary	Manufacturing	Construction	Trade and Commerce	Transport Storage & Communication	Other Services	Total
Andhra Pradesh	3.16	0.19	-12.7*	0.53	0.54	1.24	0.84
Bihar	1.13	-0.32	-0.06	0.41	-0.27	0.85	0.68
Gujarat	0.55	0.34	1.36	0.63	0.18	0.56	0.30
Haryana	0.54	0.06	92.33	0.47	0.44	0.81	0.44
Karnataka	0.75	0.15	1.41	0.21	0.42	0.62	0.54
Kerala	0.81	2.18	2.75	2.21	0.48	0.76	0.93
Madhya Pradesh	0.96	0.11	1.18	0.79	0.44	0.33	0.42
Maharashtra	1.21	0.32	1.28	0.67	0.66	0.52	0.49
Orissa	0.52	0.19	-0.10	0.98	0.28	0.42	0.41
Punjab	0.32	0.16	3.24	0.74	0.34	1.03	0.40
Rajasthan	0.96	0.17	1.03	0.32	0.42	0.62	0.67
Tamil Nadu	0.98	0.27	0.96	0.36	0.27	0.85	0.44
Uttar Pradesh	0.96	0.12	2.28	1.09	0.24	0.56	0.57
West Bengal	0.41	0.80	5.40	1.85	1.13	0.58	0.69
All India *	0.74	0.19	1.12	0.37	0.34	0.65	0.45

Note: * Result of negative income growth rather than negative employment growth.

TABLE 8: EMPLOYMENT PROJECTION FOR 1991-92 AND 1992-93

Sector	Census 1991 Employment (million)	Employment Elasticity	1991-92 GDP Growth	Employment Growth 1991-92 (Per Cent)	Employment (million) 1991-92	1992-93 GDP Growth Rate	Employment Growth 1992-93 (Per Cent)	Employment (million) 1992-93
Total	278.94	0.45	1.2	-0.12	278.62	4.2	2.64	285.97
Primary	187.92	0.74	-1.1	-0.81	186.40	4.3	3.18	192.33
Manufacturing	28.39	0.19	-1.3	-0.25	28.32	3.5	0.67	28.51
Construction	5.43	1.12	4.7	5.26	5.72	5.3	5.94	6.06
Trade and Commerce	20.82	0.37	4.5	1.67	21.17	5.5	2.04	21.60
Transport, etc	7.84	0.34	7.5	2.55	8.04	4.5	1.53	8.16
Services	28.54	0.65	2.3	1.50	28.97	1.8	1.17	29.31

Notes: Income growth rates are taken from (1) CSO, Quick Estimates of National Income, Consumption, Expenditure, Saving and Capital Formation, 1991-92; (2) CSO, Advanced Estimates of National Income, 1992-93.

commerce correspond to an employment elasticity higher than that in other components.

The total employment elasticity at the state level varied from 0.3 in Gujarat to 0.93 in Kerala. The correlation between the sectoral income and employment growth rates at the state level is highly insignificant. The analysis of income and employment at the state level suggests that the primary sector continues to dominate the employment structure, even in the states which have recorded high growth rates of GDP and manufacturing income in particular.

Even at the all-India level the employment elasticity varies widely across sectors (Table 7). Primary sector which accounted for around 2/3rd of the total employment in both 1981 and 1991 has also the highest employment elasticity. Of course construction has a higher employment elasticity than that of the primary sector but its contribution to total employment has been very marginal (2 per cent in 1991). In contrast to the primary and tertiary sector, the manufacturing sector, however, has a very low employment elasticity of less than 0.2. It may be recalled that the direct effect of manufacturing income growth on employment within this sector has not only been low, but its indirect contribution to employment generation in the tertiary sector has also been negligible [Bhattacharya and Mitra 1991]. The employment elasticity in different components of the tertiary sector has been 0.37, 0.34 and 0.64 in trade and commerce, transport, storage and communication and other services respectively, which are well below the general expectation about the unit employment elasticity in the tertiary sector. But, the employment elasticity of all components of the tertiary sector are well above that of the manufacturing sector. This is due to the sharp fall in the employment elasticity of the manufacturing sector during the 80s as compared to the 70s, when it was higher than that of the tertiary sector [Bhattacharya and Mitra 1989]. The decline in the employment elasticity of the manufacturing sector in the 80s in spite of an accelerated income growth in this sector, entails its serious implications on employment in the 90s. In view of this we may infer that the overall contribution of the manufacturing sector to total employment during the 90s would be limited due to two reasons: (a) low employment elasticity and employment share of the manufacturing sector and (b) declining employment elasticity in this sector in spite of an acceleration in the income growth.

Thus it seems that the overall employment growth would continue to depend crucially on the primary sector in the coming years. But, it may be argued that one of the main reasons of low employment elasticity in manufacturing in the 80s was due to distortions in the labour market caused by the government regulations and trade unionism. If the structural reform programme is implemented faithfully, then many of these distortions may be removed and promote employment in this sector. But as noted earlier and also accepted by the advocates of the structural reform, the increasing pro-

portion of manufacturing employment may be in the form of contractual employment with a relatively low wage. In this case although the growth rate of employment may increase or the unemployment rate may decrease, the relative share of wage income in national income would fall. In fact, this is considered to be a necessary step for the success of structural reform especially for the promotion of labour-intensive manufacturing exports.

The total employment elasticity at the state level varied from 0.3 in Gujarat to 0.93 in Kerala. The correlation between the sectoral income and employment growth rates at the state level is highly insignificant. The analysis of income and employment at the state level suggests that the primary sector continues to dominate the employment structure, even in the states which have recorded high growth rates of GDP and manufacturing income in particular.

III

Employment Projections for 90s

In July 1991 the government of India initiated a stabilisation and structural adjustment programme with the twin objectives of correcting macro-economic imbalances—fiscal deficit, inflation and balance

of payments problems—and accelerating the overall productivity and growth rate of the economy. The main thrust of the programme so far is on reduction of fiscal deficit and deregulation of private investment—both domestic and foreign. The programme has also removed substantially import licensing and partially deregulated the exchange rate. The overall framework of the programme is based on the well known IMF structural adjustment model.

It is well known that the IMF structural adjustment programme operates with a lag. Initially output and employment would fall as a result of cut in public expenditure in general and public investment in particular. Closure of uneconomic private units also leads to a fall in output and employment. Advocates of this theory argue that such a fall is temporary and eventually when the structural adjustment programme is completed, the increase in productivity and income would more than neutralise the welfare cost of initial decline in output and employment. In the first two years of the programme, public investment, especially of the centre, has fallen significantly in real terms. The cut is relatively more in public investment in industry and also in public works programme for employment. Simultaneously a severe squeeze on imports and

TABLE 9: EMPLOYMENT PROJECTIONS FOR 1993-94 TO 1995-96

Sector	1993-94 GDP Growth Rate	1993-94 Employ- ment (million)	1994-95 GDP Growth Rate	1994-95 Employ- ment (million)	1995-96 GDP Growth Rate	1995-96 Employ- ment (million)
Moderate Growth Scenario						
Primary	2.0	195.18	2.0	198.07	2.0	201.00
Manufacturing	4.0	28.73	4.0	28.95	4.0	29.17
Construction	2.0	6.20	2.0	6.34	2.0	6.48
Trade and Commerce	5.0	22.00	5.0	22.41	5.0	22.82
Transport, etc	4.0	8.27	4.0	8.38	4.0	8.50
Other Services	1.0	29.50	1.0	29.69	1.0	29.88
Total	3.1	289.88	3.1	293.84	3.1	297.85
Accelerated Growth Scenario						
Primary	2.8	196.31	2.8	230.37	2.8	204.52
Manufacturing	7.0	28.89	10.0	29.44	12.0	30.11
Construction	4.0	6.33	5.0	6.68	6.0	7.13
Trade and Commerce	10.0	22.40	10.0	23.23	10.0	24.09
Transport, etc	7.0	8.35	10.0	8.63	12.0	8.99
Other Services	5.0	30.26	5.0	31.24	5.0	32.26
Total	5.9	292.54	6.7	299.59	7.2	307.10

TABLE 10: PROJECTED WORKFORCE AND EMPLOYMENT 1991-92 TO 1995-96

	GDP Growth Rate (Per Cent)	Employment Growth Rate (Per Cent)	Employment (million)	Workforce (million)	Diff (4-3) (million)
1990-91	—	—	278.94	278.94	—
1991-92	1.2	-0.12	278.62	285.62	6.85
1992-93	4.2	2.64	285.97	292.15	6.18
Moderate					
1993-94	3.1	1.36	289.88	298.98	9.1
1994-95	3.1	1.36	293.84	305.98	12.14
1995-96	3.1	1.36	297.85	313.14	14.71
Accelerated					
1993-94	5.9	2.27	292.54	298.98	6.44
1994-95	6.7	2.38	299.59	305.98	6.39
1995-96	7.2	2.48	307.1	313.14	6.04

bank credit has resulted in a recessionary condition in the economy.

In 1991-92 the GDP growth rate fell to only 1.2 per cent. Primary and manufacturing sectors registered negative growth rates. There is no firm evidence on the overall growth situation in 1992-93 as yet. The CSO has, however, recently released an advanced forecast of sectoral growth rates for 1992-93 based on partial information on monsoon, government expenditure and monthly index of industrial production. According to this forecast the overall GDP growth rate in 1992-93 is expected to be 4.2 per cent over 1991-92. The GDP originating from primary and manufacturing sectors is expected to grow at a rate of 4.3 and 3.5 per cent respectively. The average growth rate of GDP as well as in the primary and manufacturing GDP in the first two years of structural adjustment programme (1991-92 and 1992-93) turn out to be well below the average growth rate of the 80s. Since there is no information on employment for these two years we have projected the sectoral employment based on the employment elasticity as obtained for the 80s.

The decline in the primary sector GDP in 1991-92 led to a decline not only in primary sector employment but total employment also (Table 8). The manufacturing sector employment has also declined marginally following a decrease in manufacturing output. In 1992-93 employment growth is likely to pick up since income forecast as made by CSO is positive. Total employment in 1992-93 over 1991-92 is projected to grow by 7.35 millions of which the primary sector's contribution is 5.93 millions (81 per cent).

It is difficult to predict the employment scenario for the remaining years of the present decade. Much would depend on the pace of reform, the nature of deregulation, especially related to employment/unemployment, like exit policy, minimum wage act and social security and the overall recovery of the economy. Presuming that structural reform would make little impact on the employment elasticity in various sectors in the short run, we may predict the employment figures for the next few years on the basis of the assumed GDP growth rates. We make two sets of projections; one based on the moderate growth rate of GDP in the next three years and the other gradual acceleration of the GDP growth rate, especially in the manufacturing and tertiary sectors in the next three years. The projected sectoral growth of GDP and employment under alternative sets of assumptions are given in Table 9. In the moderate growth scenario we assume that the economy would be somewhat better than average growth performance during the first two years of structural reform without any major acceleration in the sectoral growth rates. The average assumed growth rate of GDP in next three years at 3.1 per cent p.a. would be about half a percentage point higher than the average growth rate over the last two years. In the accelerated growth scenario, we presume that the economy would not only recover very fast, but would also exceed the performance achieved during the 80s. The growth

spurt is assumed to be led by the manufacturing sector with a corresponding increase in the tertiary sector income. The manufacturing sector is expected to grow at a rate of 7, 10 and 12 per cent in the next three years respectively and the overall GDP is expected to grow by 5.9, 6.7 and 7.2 per cent respectively. Needless to say that this is perhaps an highly optimistic scenario which would reflect the impact of structural reform at its full potential.

The moderate growth scenario suggests that the estimated employment in the primary sector would be 201 million in 1995-96 as against 192 million in 1992-93 (Table 9). In accelerated growth scenario it may reach 204.5 million in 1995-96 or an additional 3.5 million persons over the moderate growth scenario. Employment in the manufacturing sector in moderate growth scenario would increase from 28.5 million in 1992-93 to 29.5 million in 1995-96. However, despite a significant acceleration in the manufacturing output growth rate in the high growth scenario, the employment in this sector in 1995-96 at 30.1 million is barely about 1 million above the moderate growth scenario. The total employment in 1995-96 under moderate and accelerated growth scenarios turns out to be 298 and 307 million respectively as against 286 million in 1992-93. Out of an increase of 9 million employment in the accelerated growth scenario over the moderate growth scenario in 1995-96, the primary sectors contribution would be around 3.5 million, manufacturing 1 million and the remaining 4.5 million would be contributed by the tertiary sector (Table 9).

It would be interesting to compare the growth of employment under different scenarios with the growth of labour force. By definition the total labour force is workforce plus unemployment. Census, however, gives only the workforce figures, for which it may not be possible for us to project unemployment and labour force figures. From NSS although information on labour force and unemployment is given separately these figures cannot be juxtaposed with the census figures on workforce because of the differences (in concept, scope and coverage) between NSS and census data on employment. In this analysis, we are therefore, simply projecting the workforce for the 90s on the basis of its growth rate between 1981 and 1991. The projected workforce and employment under alternative growth scenarios are reported in Table 10. The difference between the projected workforce and employment as noted in this table is the additional unemployment created by the structural adjustment in the 90s. This is over and above the growth of unemployment due to population growth (and therefore labour force), and other factors. It may be observed that in the moderate growth scenario total employment in 1995-96 would grow to 298 million as against 279 million in 1991 Census (employment and workforce being same in the Census 1991). During the same period the volume of 1991 workforce is expected to reach a level of 313 million. The difference between the projected workforce and em-

ployment under moderate growth scenario turns out to be around 15 million in 1995-96 which is almost 5 per cent of the projected workforce in that year. Even under the accelerated growth scenario, the projected employment in 1995-96 falls short of the projected workforce by 6 million (2 per cent of the workforce in this year). Thus, the unemployment rate is likely to increase at least by 2 percentage points due to structural adjustment during the first half of the 90s.

The experience of several other countries suggest that the women labour force participation rate rises during the period of structural adjustment. If this factor is taken into consideration, then the incremental change in the unemployment rate may still be higher (Table 10). However, if the employment elasticity increases following labour market deregulation, the employment situation may improve. But it is unlikely to occur in the short run and, therefore, in the immediate future the employment situation would continue to remain critical.

Table 10 shows that the gap between the projected employment and workforce starts declining in the accelerated growth scenario after 1993-94. However, even if we project the employment growth for the period 1996-97 to 2000-01 based on the GDP growth rate of 1995-96 (i.e., 7.2 per cent and manufacturing GDP being 12 per cent p.a.) and the employment elasticities of the 80s, the projected employment in 2000-01 turns out to be 347 million, which would be about 4.5 million less than the projected workforce for that year. Thus, even if the structural reform programme becomes fully effective in the next two to three years, the unemployment would continue to remain a serious problem even by the end of this century. This is mainly because of the continued dominance of the primary sector in the employment structure. The real solution to the 'employment problem' therefore lies not so much on the acceleration of industrial output growth *per se*, but on the production technology. It is generally held that under capacity utilisation is more in the industry than in agriculture. The focus, of the structural reform is, therefore, mainly on industrial growth through liberalisation and globalisation. But, as noted above this strategy is unlikely to solve the problem of unemployment even after a considerable period of time. Hence the need for public works programme for employment generation continue to retain its relevance even in the period of structural adjustment.

IV Conclusion

This paper argues that employment growth particularly in the manufacturing sector in India has been sluggish in spite of an acceleration in its income growth during the 80s. This resulted in a considerably low employment elasticity in the industrial sector which, in fact, turned out to be well below the elasticity in the primary and tertiary sectors. A large percentage of workforce continues to be engaged in the primary sector as

APPENDIX TABLE A1: SECTORAL SHARES IN TOTAL EMPLOYMENT

(In Per Cent)

State	Primary		Manufacturing		Construction		Trade and Commerce		Transport and Communication		Other Services	
	1981	1991	1981	1991	1981	1991	1981	1991	1981	1991	1981	1991
Andhra Pradesh	72.47	71.25	10.07	8.83	1.42	1.65	5.95	6.69	2.69	2.79	7.40	8.79
Bihar	81.51	82.36	6.37	4.00	0.81	0.63	4.12	4.00	1.84	1.28	5.35	7.72
Gujarat	62.82	59.76	15.37	15.86	1.52	2.01	7.65	8.87	3.83	3.79	8.81	9.72
Haryana	61.80	58.85	12.86	10.56	2.55	2.62	7.76	8.63	3.09	3.25	11.93	16.10
Karnataka	69.37	67.36	12.15	10.71	2.00	2.47	6.55	7.98	2.63	2.63	7.30	8.84
Kerala	51.65	48.02	15.88	14.17	2.98	4.00	11.04	12.64	5.05	5.99	13.30	15.17
Madhya Pradesh	78.98	77.54	7.86	6.81	1.58	1.56	3.90	4.77	1.68	1.70	6.01	7.62
Maharashtra	64.03	61.51	13.98	13.21	2.10	2.59	7.18	8.57	3.30	3.74	9.42	10.38
Orissa	77.92	75.83	8.93	6.64	1.11	0.87	4.11	5.38	1.57	1.74	8.35	9.55
Punjab	59.05	56.08	13.16	12.28	2.04	2.56	9.47	10.55	3.73	3.83	12.54	14.70
Rajasthan	72.72	71.63	8.90	7.45	2.00	2.42	5.33	6.41	2.47	2.39	8.57	9.69
Tamil Nadu	63.88	61.81	15.22	14.03	1.78	2.15	8.45	8.68	2.91	3.09	7.75	10.24
Uttar Pradesh	75.11	73.00	9.02	7.75	1.02	1.23	4.53	6.17	2.05	1.86	8.27	9.98
West Bengal	59.13	56.49	16.66	15.96	1.37	1.85	8.77	10.72	4.05	4.22	10.02	10.75
All India*	69.40	67.37	11.30	10.18	1.66	1.95	6.33	7.46	2.75	2.81	8.55	10.23

Note: * Excluded Assam and Jammu and Kashmir.

Source: Census of India, 1981 and 1991.

APPENDIX TABLE A2: SECTORAL DISTRIBUTION OF INCOME

(In Per Cent)

State	Primary		Manufacturing		Construction		Trade and Commerce		Transport and Communication		Other Services	
	1980-81	1989-90	1980-81	1989-90	1980-81	1989-90	1980-81	1989-90	1980-81	1989-90	1980-81	1989-90
Andhra Pradesh	46.62	42.81	11.26	12.20	5.35	4.08	21.67	26.70	4.33	4.67	10.77	9.73
Bihar	58.48	44.69	7.00	14.06	6.03	7.23	16.81	18.40	2.33	2.82	9.33	12.79
Gujarat	39.36	26.65	22.99	29.90	5.44	4.02	21.15	24.12	3.18	6.64	7.88	8.67
Haryana	54.60	46.19	15.24	18.19	3.74	1.93	17.03	21.16	2.99	3.43	6.40	7.55
Karnataka	43.40	40.33	19.73	26.67	5.32	4.73	20.41	25.97	3.23	3.93	7.92	10.38
Kerala	39.65	37.69	15.51	14.57	9.12	8.69	20.32	19.12	3.60	5.53	11.80	14.40
Madhya Pradesh	52.57	39.43	13.45	16.39	5.37	3.55	11.66	11.81	5.91	5.89	11.03	22.93
Maharashtra	28.14	23.27	28.35	28.87	6.64	5.70	22.55	25.26	4.34	4.08	9.97	11.47
Orissa	57.17	52.22	8.19	8.44	5.74	6.74	18.78	18.98	1.45	1.94	8.68	11.72
Punjab	48.91	48.86	13.22	18.68	6.00	3.97	21.20	18.97	2.07	2.34	8.61	7.18
Rajasthan	52.26	54.62	12.34	12.24	5.68	4.89	18.99	17.45	2.52	2.45	8.20	8.35
Tamil Nadu	25.92	20.46	27.85	26.93	5.64	3.95	25.11	28.56	5.84	8.59	9.65	10.54
Uttar Pradesh	51.98	43.87	11.24	14.91	5.03	3.99	20.85	22.14	2.42	2.85	8.51	12.24
West Bengal	33.72	36.66	25.59	24.44	4.75	4.12	22.39	19.71	4.66	4.30	8.89	10.77
All India	41.30	34.61	17.77	21.25	5.23	4.27	21.38	24.04	3.38	4.01	10.95	11.82

Note: For Andhra Pradesh, Rajasthan and West Bengal the terminal year is 1988-89. At the All India level the terminal year is 1990-91.

Source: CSO, National Accounts Statistics, 1991—Estimates of SDP, 1990.

the rapid industrialisation of the 80s (in terms of output) remained virtually ineffective in bringing about a structural shift of workforce towards industry. The Indian experience in this respect is quite different from NIEs and ASEAN countries. Viewed in this perspective structural reform of the 90s, therefore, is unlikely to improve on the employment situation at least in the present decade. Under the alternative assumptions about sectoral growth rates which the structural reform is likely to bring in, sectoral employment and hence total employment figures have been projected for the years 1993-94, 1994-95 and 1995-96. These figures are well below the workforce figure projected from the 1991 Census on the basis of its growth rate during the 80s. This is over and above the unemployment that may be created by population growth and other factors. In other words, the rise in unemployment following the structural adjustment programme appears to be more than

what would have been otherwise. Although the difference between the projected workforce figure and the projected employment tends to decline under the accelerated growth scenario after the year 1993-94, it continues to be non-zero even by the year 2000-01. It may be, therefore concluded that the component of rise in unemployment due to structural adjustment programme would continue to persist for a long time instead of appearing merely as a transitory phenomenon as believed by many of its advocates. Needless to say if the GDP growth rate fails to accelerate then the unemployment situation may even be worse.

The foregoing analysis suggests that in the Indian context the structural reform programme which concentrates on the industrial growth rate through liberalisation and globalisation will have a limited impact on the overall employment generation in the economy. Therefore, adequate importance is to be given to the growth of the primary

sector in the structural reform programme. Secondly, it implies that even after the completion of the structural reform programme there will be still a need for direct employment generation through public works programme for a considerable period of time. This means that the solution to the employment problem cannot be left to the market forces alone. This realisation has perhaps led to a renewed emphasis on public works programme in many developing countries undergoing structural reform.

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**Following is the speech of
Mr J N Sapru, Chairman,
delivered at the
58th Annual General Meeting
of the Company held on
25 August 1993
at Calcutta**

Good morning Ladies & Gentlemen. I welcome you all to the 58th Annual General Meeting.

During the year under review, Mr M M Satharwar relinquished his office as Chairman of your Company after serving on the Board for more than 15 years of which he was the Chairman for the last 3 years. I wish to place on behalf of the Board of Directors and my own, our sincere appreciation of his manifold contributions as a Director and the distinguished leadership he provided as the Chairman of your Company during its turnaround phase. I feel privileged to be succeeding him as the Chairman of your Company.

**The Indian Economic Scene:
The Tasks Ahead**

The year under review has been full of turmoil and uncertainty and we, in India, have had more than our fair share. The global economy is still attempting to recover from the recessionary conditions accentuated by the Kuwait imbroglio and the collapse of the erstwhile Soviet Union. The process of structural readjustment to the post Cold War unipolar world has made the task even

more complicated for the countries of the Third World like ours. We have now to set not only our economic priorities right to meet the requirements of the fast changing global economy, but also our political priorities right in the context of the unipolar world. It is not an easy task but the challenge can be met. It requires a visionary leadership that can mobilise the resolve of the people to get on with the task. We need to act rather than debate. Time, the most inelastic and invaluable of all resources, will not stand still. We need to stop harping on our glorious past and act today to secure our tomorrows. A total change in our mindset is called for and the policies have not only to be stated but implemented as well. Practice and precept need to merge not only at the Central level but at the State and local levels too. The issue is not one of exit policy or *Rozgar Yojna*. The issue is basically of providing meaningful employment to the vast number of unemployed or underemployed. The issue is therefore of efficiency and productivity, for it is this that, in the ultimate, creates the surpluses for investment and growth, which is the best guarantor of meaningful employment. The need of the hour is to work at least twice as hard so as to make up for the wasted time, and the political leadership should realise the enormous cost to the nation of these avoidable enforced commemorative holidays and *Bundhs* to score political points. One hopes that better sense will prevail and the process of "liberalisation" well begun will be carried forward to its logical conclusion at a pace commensurate with the needs of the time.

Performance Review

In spite of the difficulties faced due to intermittent disruptions throughout the preceding year, and recessionary conditions prevailing in the industrial sector, more specifically in the Iron and Steel and Automotive industries, the main market segment that your Company's products service, your Company has

turned in a creditable performance. Excluding Welding business turnover in the previous year, turnover increased by 4%. What is significant, however, is that Gross Profit before providing Rs 5.62 crores for the Voluntary Retirement Scheme, improved by 32% to Rs 21.2 crores and Profit After Tax of Rs 7.05 crores increased by 39%, excluding the extraordinary profit of Rs 3.51 crores realised last year from sale of Welding business.

In view of your Company's growth plans and the need to conserve resources, your Directors have thought it prudent to recommend maintaining the dividend at 20% for the year.

Operations

Turnover of Industrial Gases registered a growth of 7% over the previous year. The adverse market conditions were partly mitigated by better capacity utilisation at Tarapur and an upsurge in compressed oxygen demand. Modernisation and upgradation of existing units were also taken up selectively during the year for improvement in cost efficiency. The Company has commenced execution of projects in the area of Pressure Swing Adsorption (PSA) Nitrogen plants with technology from Generon Systems AG, Switzerland. Health Care business recorded a growth of 20% in turnover and the sophisticated Respirator manufactured by Puritan Bennett, USA and Excel range of anaesthesia machines supplied by Ohmeda of The BOC Group (BOCG), introduced and marketed by your Company last year, were well received in the Indian market. The Company is going to launch, towards the latter part of 1993, upgraded models of indigenously manufactured Boyle anaesthesia machine. These products hold good promise for the future. The Technology and Contracts Divisions have also successfully executed several projects of technological excellence during the year. The major focus of the Division in the current year will

be to set up the Tonnage Air Separation Plant and Hydrogen Plant at Talaja

New Projects

After a period of consolidation, the time has arrived for your Company to set its sight on growth. It is as part of this strategy that your Company is setting up a 110 TPD Air Separation Plant at Talaja near Bombay for supply of gaseous Nitrogen to Floatglass India Limited (FGIL), a venture of the Asahi Group of Japan, at a capital cost of about Rs 55 crores. The Talaja project is progressing according to schedule and the plant is expected to be commissioned by the middle of 1994. This plant will make significant contribution towards increasing turnover and profit of your Company when it becomes fully operational and will help establish a strong market base in Western India. As an addition to this Tonnage Plant, another plant for supplying gaseous Hydrogen to FGIL is also being set up at the same site at a cost of Rs 6 crores.

BOCG's Commitment to IOL

As you know, the BOCG has always been strongly committed to and shown great interest in IOL and its operations. Due to FERA regulations, the BOCG had to divest its holding in IOL and bring it down to 39.76% in 1979. With the liberalisation of Government Policy, the BOCG has again, during the year, increased its stake in IOL to 51%. This increased commitment has arisen out of the BOCG's confidence in the country's policy of economic liberalisation and globalisation of industries as also turnaround achieved by IOL in recent years. This increased interest of the BOCG in IOL will mean not only ongoing transfer of international technology and R&D but will also make management knowhow from the parent company readily available to IOL.

Rights Issue

The Company has also made a Rights Offer to the shareholders - one share for every two shares held at a premium of Rs 20 per share. The Issue has been oversubscribed showing confidence of the shareholders in the Company. The proceeds of the Rights Issue will part finance the two new projects at Talaja and provide a springboard for further growth through internal generation and modest borrowings.

Change in the Financial Year

Consequent to the Company becoming a subsidiary of the BOCG, the Directors have decided to revert to the earlier financial year of the Company, viz, October-September, to synchronise with the financial year of The BOC Group. The financial year commencing 1 April 1993 will therefore cover a period of 18 months up to 30 September 1994.

ISO 9001 Accreditation

Over the years the Management and the Workmen have built an enviable record of harmonious and responsible relationship which has enabled your Company to be more productive and cost competitive. With the Indian economy opening up and increasing internal and global competition, a lot more needs to be done to match international standards. You will be pleased to note that the Company's Plant Manufacturing Works has made significant progress in bringing in a culture of Quality and obtained ISO 9001 accreditation in January 1993, which makes the Company's products internationally acceptable. I would like, and I am sure you will join me, to place on record our appreciation of the efforts of employees at all levels for their unstinted support. I am sure you will

also join me in conveying our appreciation to the Managing Director, Mr S S Prasad and his team for the impressive turnaround of the Company in a relatively short period of time.

Future Prospects

Your Company is now poised for further growth and will always strive to look around for new opportunities in its businesses while embarking on growth and technological advancement, thus continuing to play its rightful role as a premier gases company in the country.

With the economy now turning around and better industrial growth forecast for this year, we should look forward to a more impressive performance in the coming year. The first quarter's trading would indicate that recessionary conditions are abating. The initiative of the Government in revitalising the economy requires an equally responsive initiative from the Corporate sector. Your Company, with the support of The BOC Group, is alive to its responsibilities. I look forward to your support and encouragement. Equally, you can look forward to the future of your Company with optimism.

Thank you

Calcutta
25 August 1993

J N SAPRU
CHAIRMAN

Note: This does not purport to be a record of the proceedings of the Annual General Meeting

IOL Limited

A member of The BOC Group

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Clarion 3E1E01

CIS: Economic Reintegration or Disintegration?

Jayashekar

Since the beginning of 1993, the leaders of the Commonwealth of Independent States (CIS) have decided to take a number of steps in the direction of mutual co-operation and creation of a common economic space. On the other hand, they have made very little effort, so far, to harmonise their economic policies. Their economic policies, adopted under domestic political and economic compulsions, have only contributed to the fragmentation of the inherited common economic space. After an evaluation of both the integrative and the disintegrative forces, the author suggests various alternative scenarios in the future economic evolution of the CIS.

THE Commonwealth of Independent States (CIS) consists of 11 states with a population of 278 million and a territory of 22.2 million sq km, which is about 95 per cent of the population and almost 99 per cent of the territory of the former Soviet Union. Developments in this vast area are of great significance to the world, including India. The success or failure of the CIS will have far-reaching consequences for the evolution of international relations. It is being asked whether the CIS is moving towards constituting a common space or whether it is likely to dissolve itself after the newly emerged independent states consolidate their sovereignty. These questions are of immense importance. Of course, they are also the most difficult to answer definitively for certain reasons. The nature of the CIS is still unclear; its membership, yet uncertain; its purpose, even now confusing. Both centrifugal and centripetal forces are in operation within the CIS, and equally strongly. The final outcome is quite unpredictable.

Our efforts to identify, however tentatively, the emerging trends in the CIS are hampered by inadequacy of information. Ideally, an identification of the main trends would be possible only on the basis of a serious analysis of about 287 agreements signed so far by the leaders of the CIS. Such an analysis would help us in finding out how far these agreements either conform or run counter to the goal of creating a common space. It would also enable us to see whether the various provisions of these agreements are consistent with, or contradictory to one another.

Unfortunately, copies of most of the agreements are not available in India. Nor is enough information available on their implementation by the contracting parties. This forces us to base our analysis and understanding of the CIS on the statements of political leaders and the occasional opinions expressed by a few CIS experts, as also on the commentaries that have appeared in the Russian and other media.

INHERITED STRUCTURES

The economies of the former Soviet republics had evolved for nearly three quarters of a century as integral parts of the Soviet economy. In order to maximise cer-

tain political and economic advantages the central authorities deliberately pushed specialisation of economic units. They so distributed the productive forces that it resulted in the location of raw material sources in one place and of their processing units in another. Also, components were produced in many regions, but their assembling took place in one or two places. Gigantomania created production units of monstrous size, which supplied their products to the entire country. Over 2,000 industrial products were manufactured at a single enterprise. In 209 of the 344 major commodity groups in industry, one large enterprise accounted for more than 50 per cent of the output. In 109 cases, a single enterprise accounted for 90 per cent of the production.¹ All large-sized boilers were produced in one enterprise in Russia, and the smaller boilers in the Ukraine. The oil submersible pumps were manufactured exclusively in Azerbaijan, and steam piston pumps in the Ukraine. All die-casting machines were produced in Moldavia; corn harvesters in the Ukraine; potato harvesters in Uzbekistan; and fodder harvesters in Belarus. The country's requirements of sewing machines and electric irons were supplied by Russia, and of air-conditioners by Azerbaijan.

This kind of concentration and specialisation of production was to be seen not only in industry but also in agriculture, making different regions of the country closely interdependent for supplies of food and agricultural raw materials.

As a result, there arose distinctive agricultural zones. The lower Volga area in Russia and Lenkoran in Azerbaijan were called all-Union gardens; Moldavia, the Union orchard; and Georgia, the mandarin republic. The Ukraine was the 'Sugar Donbass'. The vast region, comprising the areas irrigated by the Kuban, the Don, and the Volga, as also Northern Kazakhstan, was a granary. Central Asia was the land of 'white gold' (cotton), and 'second-bread' (potatoes) was concentrated in Belarus.²

Members of the CIS inherited parts of this highly integrated economy, which had strong and extensive intra- and inter-industry linkages. A sudden weakening of, or break in, these linkages was bound to have serious adverse consequences for production and consumption, and for reform processes in

all the newly independent states. Such consequences had already been experienced to some extent by these states (or former republics) prior to the disintegration when many of them were engaged in the 'parade of sovereignty' and 'war of laws' in the last phase of perestroika.

These adverse consequences became widespread and assumed alarming proportions after the republics emerged as independent states. Production and consumption have fallen precipitously owing to economic fragmentation as the CIS official data show. The leaders of the independent states are, therefore, expected to take every possible step to create a common economic space by quickly reintegrating their economies on a new basis, taking into account the changed realities. Indeed, they have declared, and are still declaring in their summit meetings, their intention of creating a common economic space. However, these declarations have had little impact so far.

MULTILATERAL CO-ORDINATION

In a very important study, published in 1992, the centre of international studies of the Moscow State Institute of International Relations has analysed the main trends in the CIS.³ The study has identified three main trends in the developments in the CIS. They are: (a) multilateral agreements to co-ordinate economic activity and to establish the institutional structures necessary for the creation of a common economic space; (b) differentiation; and (c) bilateralisation of relations between the CIS members. To these we may add the systematic efforts by every state to diversify its economic relations and experiment with new orientations.

In the course of 11 summit meetings of heads of state and an equal number of meetings of heads of government till the end of 1992, leaders of the CIS signed a large number of agreements to govern their economic interaction. According to the above study, in the first eight months (from December 1991 to July 1992) of the existence of the CIS, there were as many as 47 agreements on economic issues. Since July 1992, many more such agreements have been signed. Of course, not all members have signed these pacts. The agreements are of two types: (a) those creating co-ordinating

institutions to consolidate the CIS as a common economic entity; and (b) *modus vivendi* agreements for preventing total collapse of the structures inherited from the former Soviet Union.

The agreements of the first type provide institutions for inter-state co-ordination of economic activity in various fields such as transport, statistics, ecology, science and technology, banking, standards, and security markets. The *modus vivendi* agreements have the potential to lay the foundation for reintegration in the long run. Of course, they may also serve as a regulating mechanism for consolidation of the national sovereignty of the new states.⁴

We do not know clearly, in any case, how many of these agreements are operational and how effective they are in practice. From the statements made frequently by political leaders and experts and from media commentaries, one gets the feeling that most of the multilateral agreements relate to transport and supply of energy. However, even in the sphere of transport or power supply the agreements are not being implemented as effectively as they should be. This means that the contribution of multilateral agreements to the creation of a common economic space has been negligible so far. All that they seem to have done is to prevent a complete snapping of the earlier economic ties in some areas.

DIFFERENTIATION

This refers to the emergence of two or more groups with different orientations within the CIS.⁵ One such group, also called the core group, consists of Armenia, the central Asian states with the exception of Turkmenistan, and Russia. This group favours consolidation of the CIS as a common space supported by appropriate institutional structures. However, it is not clear how stable the group is. A second group, consisting of Azerbaijan, Moldova, Turkmenistan, and the Ukraine, is against building institutional structures to consolidate the CIS as a common space. A third group, which consists of the central Asian states, is keen on forging a regional market of its own, with preferential deliveries to each other. Appearance of this kind of differentiation is believed to be not conducive for reintegration.

BILATERALISATION

Steeply falling production and consumption arising from broken linkages, and the failure of the efforts made multilaterally to restore or recreate these linkages have driven member states increasingly to bilateralise their economic relations—a device familiar to trade officials under central planning—to solve their immediate problems. Initially, bilateral relations developed vertically be-

tween Russia and other members of the CIS. In recent months such relations have also developed horizontally among all member states.⁶ Bilateralisation of relations between the CIS members may, in one view, facilitate reintegration of their economies in the long run, but it most certainly undermines the efforts made at reintegration in the short run. It undermines the incentives that may be there to create a common economic space.

For some time, many of the leaders professed faith in the capacity of bilateral agreements to sustain inter-state economic ties. The Ukrainian prime minister argued that a multilateral economic agreement was unnecessary and that bilateral agreements were capable of supporting economic relations.⁷ The president of Kyrgyzstan, Akayev, observed in November 1991 that "his republic had stable links with various republics based on bilateral agreements and this is what makes one confident that we can manage on our own".⁸ However, in more recent times, these leaders have realised the role that fractured economic relations can play in their predicament and have altered their posturing on economic ties within the CIS.

NEW ORIENTATIONS

Well before the collapse of the Union, during the period of perestroika, the republics started experimenting with forging new trade orientations and to that end used their freshly acquired right to pursue independent foreign economic policies. This impulse to diversify trade relations was strengthened after the breakup of the Soviet Union. Belarus and the Ukraine have tried to develop trade links with the western countries. Russia too has pushed hard for closer economic ties with the west; at the same time it has also sought to design a strategy to promote trade with the so-called 'solvent' countries in the developing world. Kazakhstan has worked hard to attract western capital and to diversify its trade simultaneously. It has made strenuous efforts to promote close economic ties with China, India, Iran, Japan, Pakistan, South Korea and Turkey. Other central Asian states have oriented themselves to Asia, particularly India, Iran, Pakistan and Turkey. To the extent the newly independent states succeed in these efforts, their urge for a common economic space would weaken.

However, after an year of experimentation, members of the CIS realised that the much-desired reorientation of their economic relations was frustratingly slow. This forced them to think in terms of restoring their old ties with one another. They thought that restoration of such ties might help at least till they had succeeded in their efforts to diversify their foreign trade.

Multilateral efforts, differentiation, bilateralisation, and new economic orientations are all so highly contradictory that they cannot lead to a reintegration of the econo-

mies of the CIS states. The contradictions, however, are not the only factor making the economic reintegration process difficult. There are other, far more important factors which make the creation of a common economic space an almost impossible task. Before examining these factors, it would be interesting and useful to have a look at the impact of the fractured economic relations on the performance of the economies of the independent states and on the efforts made to bring about economic reintegration.

IMPACT ON ECONOMIC PERFORMANCE

The economies of the members states of the CIS functioned in a radically altered environment following the disintegration of the Soviet Union in December 1991. The economic crisis that began in 1990 deepened significantly in all the states in 1992 (Tables 1 and 2). The financial disequilibrium worsened throughout the CIS. The producers' and consumer goods markets became more unstable. Inflation was high and affected all states. The disparities between wages and money incomes widened substantially, pushing larger number of people below the poverty line. Living standards declined precipitously. The value of the rouble fell almost by the day. The national income produced in 1992 dropped to the 1978 level for the Commonwealth as a whole.

The total volume of industrial production in the CIS dropped by 18.2 per cent in 1992. The production of consumer goods decreased by an average of 15 per cent, including a 19 per cent decline in food production and a 13 per cent decrease in the production of non-food goods.

In the Commonwealth as a whole, the extraction of petroleum, including gas condensate, was 14 per cent lower in 1992 than in 1991. Gas extraction dropped by 3 per cent, and coal by 5 per cent. The production of finished rolled ferrous metals declined by 15 per cent. As a result, there were serious shortfalls in the production of the machine-building industry. Tractor production decreased by 23 per cent in Russia, and by 61 per cent in Kazakhstan; the production of machine tools fell by 34 per cent in Kazakhstan, and by 50 per cent in Armenia; the output of forges and presses declined by

TABLE 1 ECONOMIC DEVELOPMENT IN CIS, 1992
(In percentage and at comparable prices)

	1989	1990	1991	1992
GDP	3	-4	-8	-20
Industrial production	2.3	-3.4	10.1	-18.2
Consumer goods production	7.7	6.5	-4.5	-15.0
Agricultural production	1.5	-2.6	-6.9	-10.0
Capital investment	5.0	1.0	-12.0	-45.0
Trade turnover	8.4	10.5	-9.6	-36.7
Paid services	7.4	5.2	-18.5	-35.9

Source: *Delovoy Mir*, Moscow, March 2, 1993.

35 per cent in Russia, and by 45 per cent in Belarus.⁹

The shortfall in the production of chemical products, synthetic resins, plastics, and chemical fibres and filaments continued. The production of mineral fertilisers was down by 21 per cent in Russia and Belarus, by 42 per cent in Kazakhstan, and by 46 per cent in Turkmenistan.

In Russia, the shortfall in the production of refrigerators was 14 per cent. The decline in the production of television sets was 18 per cent, and the production of washing machines, tape recorders, and radios was down by 23-28 per cent. The production of refrigerators in Tajikistan and Uzbekistan and of washing machines in Kyrgyzstan decreased by more than twice.

The decline in agricultural production and supply of raw materials resulted in a serious drop in the output of the food industry, chiefly meat and milk products. The output of meat was less by 25 per cent in 1992 in Russia and Uzbekistan, by 38 per cent in Kazakhstan, by 43 per cent in Kyrgyzstan, and by 60 per cent in Tajikistan. The production of whole-milk products decreased by a factor of two in Kyrgyzstan and Russia, by 40 per cent in Tajikistan, and by 32 per cent in Kazakhstan and Uzbekistan.

The tendency of investment activity to decline grew strong in 1992 throughout the CIS. Capital investment from all sources was 55 per cent of that in 1991: it was lower by 55-60 per cent in Kazakhstan, Russia, and the Ukraine, and by 85 per cent in Belarus.

The financial condition of enterprises was extremely unstable. Indeed many of them were on the brink of bankruptcy. The share of enterprises operating at a loss increased from 15 per cent in 1991 to 22 per cent in 1992 in Kyrgyzstan from 11 per cent to 17 per cent in Russia; from 13 per cent to 14 per cent in Uzbekistan; from 15 per cent to 16 per cent in Turkmenistan; and from 7 per cent to 10 per cent in Belarus.

There were several reasons for the economic crisis in the CIS—as, for instance, structural changes, lack of demand, obsolescence, steep fall in investment, decline in imports of raw materials and components, absence of comprehensive reforms, and worsening socio-political conditions. However, the principal reason was the severance of economic ties between the Commonwealth states after the disintegration of the Soviet Union. Kazakhstan president Nursultan Nazarbayev attributed 85 per cent of the slump in production in his state to the broken economic linkages with other CIS members and the collapse of the COMECON.

The economic situation was seriously complicated in all the states owing to the restrictions introduced by member states on commodity exports, as also broken promises to deliver products and payment delays. Inter-governmental agreements to supply many types of products were not fulfilled.

For instance, Russia failed to deliver automotive gasoline, petroleum products, and gas condensate to all the states except Uzbekistan. Similarly, it went back on its commitment to deliver fuel oil to all the states with the exception of Belarus. It withheld diesel oil from all the states except Kyrgyzstan and Uzbekistan. Coal deliveries were also highly irregular.

Belarus failed to keep up its deliveries of rolled ferrous metals and tires to all except a few states. Turkmenia delivered the full volume of natural gas only to Kazakhstan and Kyrgyzstan. It delivered fuel oil only to Tajikistan and Uzbekistan. It failed to ensure its deliveries of gasoline, diesel, natural wool, and cotton fibre in most cases. In 1992 the tendency of inter-regional exchange of consumer goods to decrease grew at a speed that was greater than ever before.

With these depressing economic results for the year 1992, the CIS leaders realised at the start of 1993 that only by pooling their efforts could they expect to avert disaster. They recognised economic integration as something inevitable. However, it was not a realisation that had dawned suddenly. *Interfax* had written in July 1992: "The results of the July CIS summit suggested that disruption in inter-republican economic co-operation relations convinced the leaders of the CIS countries that some degree of economic co-operation was necessary."

TOWARDS AN ECONOMIC UNION

Since the beginning of 1993, the CIS leaders have decided to take a number of steps in the direction of mutual co-operation and creation of a common economic space. These include: agreements on the formation of a Central Asian Common Market, the establishment of an Interstate Bank and a Co-ordinating and Consultative Committee, protection of securities, and appointment of a chairman of the Economic Court. The most significant step, however, was the *Declaration on Economic Union* issued at the Moscow summit held on May 14, 1993.

Thus, at least at a superficial level, there seems to be greater emphasis, in recent months, on reintegration. Nevertheless, these developments should be regarded as the continuation of the trends observed in 1992—attempts at reintegration, differentiation, bilateralisation and diversification.

The leaders of the central Asian states at their meeting at Tashkent on January 4, 1993 decided to form a regional market.¹⁰ This implied common customs regulations, a common tax system, a common price policy, and common measures to solve the problems relating to the Aral Sea and the Caspian Sea. They also agreed to give priority to the region in reciprocal deliveries of scarce raw materials and other products. For instance, Kazakhstan declared its intention to send a significant portion of its crude oil to refineries in Turkmenistan and Uzbekistan. This applies to grain and energy resources as well.

These leaders had made a similar effort in December 1991, but had failed to forge close economic relations. There are no grounds to suppose that they will succeed now; for there are significant differences in the economic conditions of the central Asian states: their approaches to economic reform and co-operation also vary. Leadership rivalries, individual and group ambitions, and ethnic conflicts would, further, act as barriers to the forging of a central Asian common market. The emergence of a regional market in central Asia is, therefore, highly uncertain. Even if the idea should succeed, it would strengthen the process of differentiation rather than promote integration within the CIS.

After several months of effort, the CIS leaders agreed, at their summit in Minsk in January this year, to set up an Interstate Bank. The Bank was originally conceived as a step towards a common banking system, but the member states made so many amendments in its original charter that they emasculated the idea of co-ordinated credit and monetary policy. None of the Commonwealth countries wants its national banks to co-ordinate credit and currency emission

TABLE 2: ECONOMIC DEVELOPMENT IN CIS MEMBER STATES

	(In percentage of 1991)					
	National Income	Industrial Production	Consumer Goods Output	Retail Trade Turnover	Paid Services	Wholesale Industrial Price Index
Russia	-20	-18.8	-15.0	-39.1	-36.0	2049
Ukraine	-15	-9.0	-9.0	-22.8	-25.0	2500
Belarus	-11	-9.6	-5.0	-26.1	-28.0	2465
Kazakhstan	-14.2	-14.8	-21.0	-38.5	-48.0	2469
Uzbekistan	-12.9	-6.2	100.4	-31.3	-42.0	1396
Turkmenistan	-	-16.7	-14.0	-38.0	-33.0	1094
Kyrgyzstan	-26.0	-26.8	-36.0	-67.0	-42.0	1764
Tajikistan	-31.0	-24.3	-28.0	-72.1	-68.0	1423
Azerbaijan	-28.2	-24.0	-24.0	-63.0	-68.0	1423
Armenia	-42.6	-52.5	-54.0	-72.7	-72.0	1047
Moldova	-21.3	-21.7	-16.0	-49.4	-48.0	1311

Source: *Delovoy Mir*, Moscow, March 2, 1993.

policies with the Interstate Bank. According to V Solovov, vice-chairman of the Central Bank of Russia, this limits the possibilities of the emergence of a joint-banking agency in the CIS.¹¹ In fact, the Interstate Bank will not even be able to help solve the urgent problem of settling accounts between enterprises in different states. The only role that it can perhaps play is that of settling accounts under inter-governmental agreements.

One would imagine that there is considerable potential in the Declaration on Economic Union by the CIS leaders. The heads of state of the Commonwealth at their summit held in Moscow on May 14 declared their resolve to follow the path of deeper integration by creating a common market for free movement of goods, services, capital, and labour within the common economic space of the CIS and moving in a phased manner towards an economic union.¹² They expressed their belief that the immediate task on the way to an economic union was to create a customs union, grant exemption to one another's goods from customs duties in a phased manner, and to remove all non-tariff barriers. They also agreed that it was necessary to have a well-coordinated policy in matters of finance, credit, money supply, and foreign exchange. They pledged to follow an agreed strategy of economic reform and to carry out an active social policy. They asked the executive body of the CIS, the Co-ordination and Consultative Committee, to prepare about 25 relevant documents by July 1, 1993 for setting up the economic union.

The Declaration on the Economic Union was signed by all the members of the CIS except Turkmenistan. President Saparmurad Niyazov said that an economic union was inadvisable at least for the present: "We are not ready for it in a conceptual sense."¹³ While supporting economic integration, Moldova and the Ukraine objected to the word 'union'. The Ukraine also did not sign the agreement on the appointment of a chief judge of the economic court.

While the political leaders have spoken optimistically about the Declaration, experts have assessed it differently, indeed with scepticism. Vladimir Mashits, chairman of the Russian Committee for Economic Co-operation with Commonwealth States, pointed out that "several political problems must be resolved before the idea of a CIS economic union becomes practicable. Such a union would be impossible if its future members failed to pursue identical goals in the course of their reforms or keep pace with each other".¹⁴ Another Russian official, Andrei Illarionov, who is the chief economic analyst in the prime minister's office, saw the proposed union as militating against Russia's interests.¹⁵

The Declaration on the Economic Union is only a serious statement of intent. Ac-

cording to *Russiyaskaya Gazeta*, the declaration, however serious, was no more than a declaration. There had been many such declarations in the past. The journal also pointed out that the idea was likely to get bogged down in political, ideological, bureaucratic, and other 'dead ends'.¹⁶ Similarly, *Pravda* asked why the people should count on the Declaration and other 25 pledges that the CIS leaders were promising to sign by the end of 1993 when the 287 documents adopted since December 1991 had proved dead letters.¹⁷

If we are to judge the Declaration on the basis of previous experience, there is little room for optimism. In the past, the CIS leaders have always hurriedly agreed on broad principles, leaving 'devilish' details for negotiation later. But while negotiating such details, they have introduced numerous changes and reservations so that the agreed principles are emasculated. There is sufficient indication to suggest that a similar thing is likely to happen even in the case of an economic union. The president of the Ukraine, Leonid Kravchuk, has already voiced reservations concerning the future structures of the proposed union.

Past experience also shows that following the signing of declarations, differences in interpretation begin to arise. Such differences came up over the Brest Declaration by Belarus, Russia, and the Ukraine in December 1991; that Declaration too had pledged to promote a unified economic space.

This was perhaps the reason why *Izvestia* harshly stated:

The presidents are compelled to prolong the life of their year-old offspring primarily by the interests of their own states. These interests walk a tightrope between the fear of reviving a centre with Russia playing the role of 'elder brother' and the burning need for a single economic space. The former is noticeably tipping the scales, judging from the fact that not one of the accords signed earlier—there are more than 200 of them—is being implemented in any practical way. The existence of the CIS is being maintained by artificial respiration. There is no other term for the process of mutual assurances, protocol handshakes, and diplomatic smiles that the leaders of the CIS countries have been exchanging at their summits so far without result.¹⁸

A commentator in *Nizavisimaya Gazeta* also expressed scepticism by saying that the remark of the president of Kazakhstan about the formation of a strong integrative nucleus in the CIS seemed somewhat exaggerated: "Rather we are still with slow but steady decomposition of this integrative nucleus."¹⁹

The question whether the CIS is moving towards a common space or it is likely to dissolve itself after facilitating consolidation of sovereignty by the newly emerged independent states can be answered only by paying equal attention to both the

reintegrative and disintegrative forces. The two forces are present in equal strength.

INTEGRATIVE FORCES

Although Russia's capability to earn foreign exchange by exporting oil and gas and other raw materials to the world market will continue to be a major asset, its enormous machine-building sector will depend on the other members of the CIS to absorb its output for some time. With the exception of weapons, space services, and certain types of equipment needed in the power and metallurgic industries, it is virtually impossible to sell Russia's industrial products on the world market. Russia needs to depend for some time at least on the former republics.

The complementarity between Russia's export capacity in respect of certain kinds of machinery which are less competitive and the continuing need of the newly independent countries for such equipment to maintain their existing capital stocks is going to be a major cohesive factor till the end of this century and after.²⁰ The massive investment in advanced capital equipment—both domestic and imported—required to make Russia's machine industries competitive will not be realised in the near future. Similarly, the independent states importing machinery and spare parts from other former Soviet republics will require some years to wean their industries away from dependence on compatible Russian equipment. Russia, in turn, depends on other members of the CIS for the supply of manufactured consumer goods, spares, and components.

The Ukraine, like Russia, will continue to depend on the other members of the CIS to absorb its exports of machinery and ferrous metals. Like all other states except Azerbaijan and Turkmenistan, the Ukraine depends on Russia for oil and gas supplies. In addition, it imports non-ferrous metals from other former republics, mostly from Russia and the central Asian states.

The economic prospects of Belarus depend critically on the extent to which it can sustain its close economic ties with Russia and the Ukraine. Belarus has a highly developed machine-producing sector like Russia's and the Ukraine's and depends on other states in the CIS to buy its relatively uncompetitive machinery as well as light manufactures. It will also remain highly dependent on inter-state trade for supplies of energy and ferrous metals inputs.

A major source of foreign exchange for the central Asian states is agricultural raw materials. It will be extremely difficult to find markets for these goods outside the CIS. Moreover, these states depend on Belarus, Russia, and the Ukraine for most of their investment goods and on the former republics for the absorption of their textiles and light manufactures, which apparently have little value and receptivity on the world

market. They also depend on the former Soviet republics for wood, paper, food, and ferrous metals in addition to oil and gas. Only Turkmenistan has an enviable buffer in its fuel reserves. Most of the central Asian states will, therefore, be unable to sustain historical levels of imports. This will severely limit their capacity to invest, to supply inputs to industry, and to sustain living standards.

Similarly, the Caucasian republics, Armenia, Azerbaijan, and Georgia, are net importers of machinery. All export light manufactures to other former republics.

Besides the practical difficulty of generating exportable surplus, all of the newly independent states will face severe challenges to market their products outside the CIS.²¹ Russia is the only state with significant experience on the world market. The links of the other CIS members with foreign markets are still tenuous.

This challenge to market products will be especially acute for most of the independent states because their net exports typically consist of food, agricultural products, and light manufactures such as textiles, and the world market is particularly unreceptive to these products. In addition to extensive interdependencies, the absence of alternative markets will provide a stimulus to keep up economic co-operation.

The present economic crisis throughout the CIS and its political consequences will also compel the leaders to forge close economic co-operation. All public opinion polls too suggest that a majority of the people, workers, enterprise managers, and the old bureaucrats favour economic reintegration in the CIS.

DISINTEGRATIVE FORCES

On the other side, there are equally powerful disintegrative factors to reckon with. A common economic space over which there is free movement of goods, services, capital, and labour will be possible only if there is a common currency or currencies rationally aligned to each other. The creation of such a space will also require harmonisation of monetary, fiscal, budgetary, and customs policies as well as reform strategies by those who constitute the common space. It will also involve creation of an institutional mechanism to ensure harmonisation of economic policies. That the leaders of the CIS have clearly recognised this since December 1991 is reflected in the various declarations.²²

In spite of this recognition, members of the CIS have made very little effort to harmonise their policies. On the contrary, their economic policies, adopted under their domestic—political and economic—compulsions, have only contributed to the fragmentation of the inherited common economic space. This would become evident if we looked at one or two specific areas of policy of the newly independent states.

First, let us take a look at the issue of having a single currency and monetary system. There is chaos in this important area. Member states have not accepted a common currency. Nor have they issued currencies of their own or co-ordinated their monetary policies for the last one-and-a-half years. Some member states have turned down the proposal to accept the widely used rouble as the common currency either from a fear of having to depend on Russia or from a feeling that they must have a currency of their own so as to assert their newly acquired sovereignty. Only six states—Armenia, Belarus, Kazakhstan, Kyrgyzstan, Russia, and Uzbekistan—have agreed to be in the so-called rouble zone. Of these, Kyrgyzstan has since introduced a currency of its own, *som*. It did so in May this year. Others such as Azerbaijan, Georgia, Turkmenistan, and the Ukraine are planning to introduce their own currencies as soon as possible. There are reports that Belarus, Kazakhstan, and Uzbekistan too are preparing to have separate currencies. Kazakhstan is thinking of having its currency *tumen* or *tanga* circulating side by side with the rouble. Meanwhile, a number of states have been using roubles, which they have themselves minted, in non-cash circulation, while using the common rouble in cash circulation, so that, as V Gurevich of *Moskovskiy Novosti* points out, the rouble zone is no longer in existence.²³ There is only an area where the rouble is being used.

However, the most important factor that may obstruct the emergence of a common economic space within the CIS is the differences in approach over economic reform and restructuring. In a recent article Donna Bahry has argued that contradictions in Gorbachev's perestroika imposed economic costs on the republics and led them to strive for autonomy and adopt policies which contributed significantly to the collapse of the union government.²⁴ She has suggested that the conflicts that arose under perestroika will continue as the various independent states have developed their own economic institutions and taken divergent paths to reform.

The economic reforms that the independent states must undertake to improve their situation in the long run can be expected to precipitate consequences that would hinder economic co-operation among them. For instance, since the winter of 1991, many republics (now states) and even *oblast*-level units have attempted to ensure against shortages by controlling their exports of food, energy, and consumer products. Progress in reform and restructuring is bringing in unemployment and inflation in all states. And trade deficit in most states are creating a strong incentive for them to impose tariffs and introduce their own currencies in order to protect domestic industry and control inflation.

The larger among the states seem to think that economic recovery and reform would be easier to attain if they chart out and implement independent strategies. In particular, they believe that this way effective monetary and fiscal policies would be easier to carry out, and that they would be able to adapt reform measures such as privatisation so as to suit their specific political and ethno-cultural environment.

As a consequence, each state in the CIS has sought to pursue an independent strategy of economic reform and adjust it constantly to the fast-changing economic and political situation. This has often led to divergencies in their reform processes and resulted in utter confusion.

Soon after the disintegration of the Soviet Union, concerned that delay would prove dangerous in view of the deteriorating economic situation, Russia proceeded with its 'shock therapy' approach to economic reform. And it expected that other states would follow its lead. Even today the Russian leaders believe that "since Russia as of now is actually the locomotive of reforms among the CIS countries", its economic reform model would be adopted as the basis for a common strategy in the Economic Union.²⁵ This makes it clear that Russia is unlikely to adjust the speed and nature of its reform so as to suit the requirements of other CIS countries. This is so not only because it was the first to begin the reform or because it is the largest economy in the CIS, but also because the Russian leaders are very keen to involve international institutions like the IMF and the World Bank, and the western countries in their reform process. In fact, in February 1993, even as the Russian leaders were busy with their plans for creation of an economic union, the presidium of the Russian government took a decision at a meeting to maintain only "those ties (with the CIS countries) for which there is no alternative, where one specialised plant exists for the entire Commonwealth".²⁶ A careful analysis of the recently announced Russian economic programme would reveal Russia's determination to move ahead with its programme of reform without waiting for the others to fall in line.

It would be naive to expect other members of the CIS, who are now lagging behind Russia in the matter of economic reform, to follow the Russian model in the present atmosphere of fear, suspicion, and doubt about the viability of reform. A staunch integrationist state like Kazakhstan, which initially followed the Russian model, abandoned it, perhaps in desperation, seeing that the cost was too high. It now talks of pursuing an independent economic strategy. Recently, in April, it adopted a document titled 'A Programme for Urgent Anticrisis Measures, Intensification of Socio-Economic Reforms' with the approval of president Nursultan Nazarbayev. This document

clearly states: "This programme proposes that we forge our own policy, no matter how strong integration between the CIS countries is, and that we further liberalise the economy, but within more orderly and manageable limits".²⁷ Earlier, Kazakhstan had taken a decision to go slow on its programme of privatisation and adapt it so as to suit its socio-ethnic conditions. The other central Asian states too have adopted widely differing approaches to economic reform despite their professed objective of supporting economic integration within the CIS or establishment of a Central Asian Common Market.

The chances of all the members of the CIS following a similar reform strategy are remote, even illusory. The deteriorating economic, social, and political situations in these countries would not allow such a thing to happen, at least in the near future. In the absence of a common reform strategy, it would not be easy to achieve harmonisation of monetary, fiscal, price, and customs policies so as to create a common economic space.

Besides, there are certain other formidable barriers to economic reintegration. Fear of the revival of old imperial order, though in a new form, is one of them. Many members of the CIS feel that a common economic space cannot last long unless it is extended to a common military and political space and that such extension could only lead to a re-establishment of the Russian empire in a new incarnation. This fear is based on their past experience as well as their perceptions of the present behaviour of the Russian leaders. After the October revolution, Stalin skillfully used economic agreements as a means of subjugating the republics. In recent times, Mikhail Gorbachev's new Union Treaty failed to take off largely owing to the reluctance of the imperialists at the centre to accept a degree of decentralisation of economic power.

The present behaviour of some of the Russian politicians also makes the non-Russian states wary. They are worried lest the integrated structures should lead once again to Russian domination. This fear is easy to understand. On the right, for instance, there is Vladimir Zhirinovskiy calling for a restoration of Russia's imperial possessions and ridiculing the pretensions of former Soviet republics like Kyrgyzstan and Moldova to statehood. On the left, the communists have already publicly declared their determination to resurrect the old Soviet Union.

Yet another disintegrative force is the advanced nationalism. Some CIS members believe that it is necessary to have an independent economy to assert their newly acquired sovereignty. A few among them are determined to resist any form of reintegration that might involve surrender of their sovereignty.

After a careful evaluation of both the centrifugal and centripetal forces we may

suggest, tentatively, three alternative scenarios in the future evolution of the CIS:

(a) One extreme scenario envisions most of the independent states reintegrating into a single economic space.

(b) Another extreme scenario visualises all the states remaining independent, with their own currencies and independent trade policies.

(c) A third, 'intermediate' scenario sees Russia, Belarus, Kazakhstan, and some central Asian republics, and probably, one or two Transcaucasian republics, creating a single economic space.

The first scenario, reintegration, does not seem probable in the short and medium term, though it is probable in the very long run. The opportunities created at the end of 1991 with the conclusion of the Economic Community Treaty have been lost. The difficulties in achieving concrete agreements, including agreements on fiscal and tax policy and the creation of a banking union, are serious. The problem of working out a common strategy of economic reform in the prevailing unstable political situation is truly daunting.

The lack of financial and monetary discipline in the absence of authoritative co-ordinating bodies, the need to create such bodies and vest them with greater powers in a situation where all the states are jealous of their sovereignty, and the difficulties in achieving the 'equilibrium of forces and interests'—all these make it doubtful that the CIS countries will be able to preserve a single economic space. Significant differences in history, culture and the level of economic development of individual or groups of states would make common economic space a difficult proposition.

Though the second scenario appear to be improbable in the immediate, it is the likely one in the medium term. In the short run, majority of the independent states are not ready to introduce their own currencies, and balance their budgets. Inter-state settlements in non-convertible and unreliable national currencies would become a problem. Sudden disruption of trade would aggravate worsening economic crisis. But in the medium term, most of the states will acquire their own currencies and pursue independent trade policies.

The third scenario seems the most probable. Russia, Belarus and Kazakhstan will stay within the rouble zone. They will not only accept strict obligations in the areas of finance, taxes, banking and trade, and would agree to create powerful co-ordinating bodies; they would also harmonise their reform strategies.

The prospects of central Asian states joining this common economic space depends to a very large extent on Russia's willingness to help these states with substantial assistance. But, in the present situation of deepening economic crisis Russia may find

it difficult to extend large-scale help to central Asian states.

Another probable scenario is the communist or Russian imperialist backlash leading to forcible reintegration. For reasons of space, we are not able to discuss it here.

Notes

[Most Russian sources cited here have been translated in FBIS, *Daily Report* and CDSP.]

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Indian-Language Newspapers and Why They Grow

Robin Jeffrey

The last 15 years have seen a remarkable growth of Indian-language newspapers which are increasingly attracting major advertisers. In most regions, intense rivalries have developed as newspapers use new technology and time-honoured techniques of journalism in a contest for increased circulation and advertising. What are the factors which have driven the expansion of the Indian-language press?

IN most of the industrialised world, the past 15 years have seen a reduction in the number and circulations of daily newspapers. But in India daily newspapers in Indian languages have grown remarkably since the late 1970s. That growth has varied from one language to another,¹ but overall, circulation appears to have increased by roughly 140 per cent in 12 years—from something like 9.3 million copies a day in 1976 to 22.6 million in 1988.² (See Graph 1 for daily circulations in all languages and in Hindi and English, 1967-88.)

No other country—indeed, no other continent—in the world has a newspaper industry as complex and highly developed as India's. In the 1980s, seven languages (Hindi, English, Malayalam, Marathi, Bengali, Gujarati and Tamil) had a newspaper industry that sold more than a million copies a day. Five other languages (Kannada, Telugu, Oriya, Punjabi and Urdu) exceeded 3,00,000 copies a day. (See Graph 3 for the five higher-circulation languages and Graph 2 for the five lower-circulation languages, both 1967-88.)³ Moreover, the 13 languages considered in this paper are written in nine different scripts.⁴ In Europe, a literate traveller can decode the headlines from Madrid to Helsinki. In India, a Tamil newspaper may be as unintelligible to a Keralite or a Kannadiga as it is to a Canadian or a Kenyan.

The condition of the newspaper industry reflects in many ways the state of India's society and economy. The economic judgments that lead proprietors to open and close newspapers are based on a daily referendum carried out by millions of Indians when they decide to invest a rupee or two—first, in a newspaper and then, in one newspaper and not another. Their decisions are interpreted by advertisers and advertising agencies whose purchase of advertising space determines newspaper profits.

In the past 15 years, a flourishing Indian-language daily press has increasingly attracted major advertisers. In most regions, intense rivalries have developed as newspapers use new technology and time-honoured techniques of journalism in a contest for increased circulation and advertising. Almost no Indian newspaper today is viable on the basis of sale price alone.

Perhaps most significant, between 1988 and 1992, the audited circulation of dailies in Hindi, the national language, grew by 35 per cent (from 2.6 million a day to more than 3.2 million a day). The number of Hindi dailies belonging to the Audit Bureau of Circulations (ABC) rose by almost 50 per cent—from 33 to 49.⁵

Membership of the ABC indicates that a newspaper has become a serious business enterprise, committed to advertisements and to maximising revenue. Formed in 1948 by advertisers, advertising agencies and publishers, the ABC in 1993 had 157 daily newspapers as members. The circulation figures which it publishes every six months are based on statements submitted by member-newspapers' accountants, verified every three or four years by outside auditors and subject to random spot checks. Largely on the basis of these figures, India's major advertisers and advertising agencies decide how to spend their budgets.⁶ In 1990 expenditure on advertising in India was estimated at Rs 1,504 crore (about US \$ 750 million).⁷

Five factors have driven the expansion of the Indian newspaper industry in the past 15 years:

- (i) improved technology has enabled the production and distribution of larger numbers of more attractive newspapers,
- (ii) literacy has expanded steadily,
- (iii) adequate purchasing power—the capacity in 1993 to spend more than Rs 50 a month on newspapers—has come into the hands of a larger proportion of the population,
- (iv) aggressive publishers have concluded that power, profit and survival depend on the expansion of their newspapers,
- (v) political excitement—awareness, 'politicisation'—has spread to large sections of the population, especially in the Hindi areas, and has created a desire-to-know which fuels newspaper buying.

The first three of these aspects are the least complicated and contentious, but they need to be explained.

TECHNOLOGY

One of the handicaps of the Indian newspaper industry in the 1970s was slow and antiquated printing technology and a poor road network in most regions.

Newspapers took a long time to set—many were still composed by hand—and print; it took even longer to transport them to readers beyond the city of publication and nearby towns. Publishers and distributors constantly refer to the need to get a morning newspaper into readers' hands by 7 O'clock. By 9, the contents of a paper have lost their freshness, and readers have had to leave for work. A stale paper does not sell.

The transformation of the 1980s has been in printing technology, not surface communications. Some improvement in India's roads has occurred in the past 20 years, and larger numbers of cars, jeeps and trucks have increased the pool of operators eager to contract with newspapers to distribute the paper. But in most areas, poor roads severely limit the distance to which a paper can be transported in three or four hours. Generally, newspapers are not transported more quickly in the 1990s; but they are produced closer to their readers. Electronic technology, and Indian-made offset presses, have allowed printing centres to be set up in smaller towns, thereby reducing the distance a newspaper has to be transported. It would take seven hours to move a truck load of newspapers 300 miles in most parts of India. But using telephone lines, news copy can be sent by facsimile or modem hundreds of miles in a few minutes. Indian newspaper publishers began to do this in the 1980s.

Two methods currently exist. The more costly is to import facsimile machines which can transmit a full broadsheet page. News-gathering, editing, type-setting, page make-up and paste-up take place in a single centre. Then the full newspaper is sent by facsimile to distant printing centres, equipped with plate-making facilities and offset presses. The printing centre receives from the facsimile machine film which can be made directly into an offset plate for the press.

This is the method (with a few local variations) used by India's largest selling daily newspaper *Malayala Manorama* (Malayalam: 6,74,000 copies—ABC, June-December 1992), which centralises most activity in Kottayam. It sends pages by facsimile to printing centres in Kozhikode, Thiruvananthapuram, Palakkad and Kochi. *Punjab Kesari*, the largest selling Hindi

daily (5,63,000 copies) uses the same method from its Jalandhar base to a printing centre in Ambala. In Andhra Pradesh, *Eenadu* (Telugu: 3,61,000 copies) has the capacity to make similar transmissions from Hyderabad to its plants in Vijayawada and Rajahmundry.

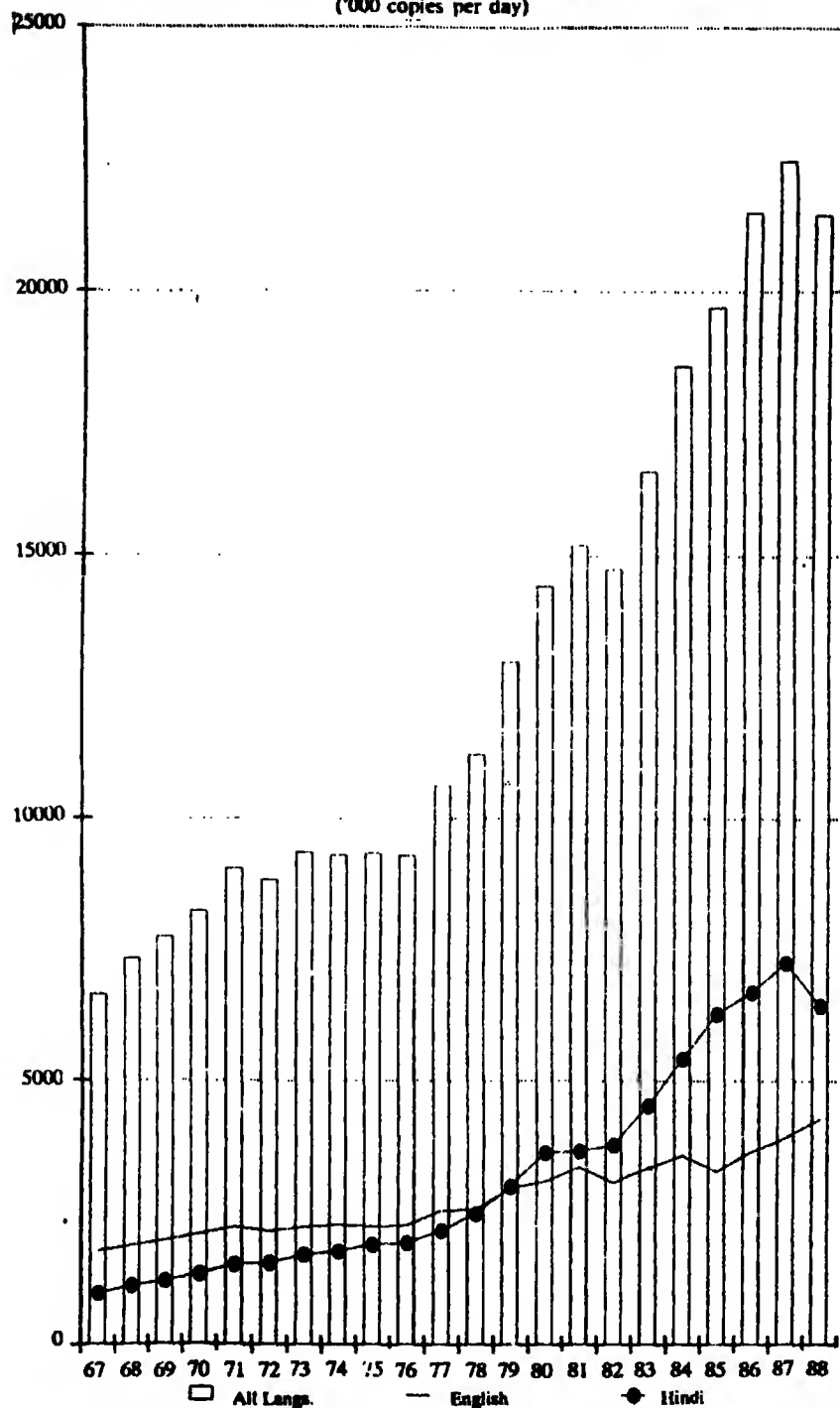
It is significant, however, that although *Eenadu*, which prints from seven centres, has invested heavily in broadsheet-sized facsimile equipment, it has found it more effective to adopt a second option. This requires only personal computers, modems and telephone lines. This method is also followed by *Mathrubhumi* in Kerala and Hindi dailies like *Dainik Jagran*, *Rashtriya Sahara* and *Amar Ujala*. Edited and set on computer at a central location, copy is sent by modem to other printing centres where it is taken off the phone lines in the form of bromides (camera-ready copy), ready for paste-up. Some newspapers seek to maintain close central control by sending page designs (dummies) to each printing centre so that each edition looks much the same. *Eenadu*, however, leaves each printing centre with considerable freedom about the make-up of the day's paper.

Typesetting by computer has reduced the time needed for printing. In the days of hot type, when the bulky machines made by the Monotype and Linotype companies, turned molten lead into lines of type, copy had to be constantly reset. With electronic typesetting, however, once a story is on computer it can be edited, re-formatted or transferred by telephone lines without having to be re-typed.

Photo-composing has also meant that the intricate scripts of Indian languages can be more sharply and consistently reproduced than was possible with metal types. Offset presses allow good-quality photographs to be included quickly and cheaply. And colour photographs and advertisements are possible at an increased, though reasonable cost. Indeed, in Andhra Pradesh for the past six or seven years, every daily newspaper uses colour on its front page every day. Publishers bemoan the expense of the 'colour war', but—"once the market is corrupted", no one is prepared to go back to black and white.⁸

Offset printing is faster than letter-press. An Indian-made offset press like the Orient can turn out 25,000 copies an hour of a 16-page paper. Moreover, because such presses are now manufactured in India their purchase, though costly (estimated at about Rs 1 crore or US \$ 3,30,000),⁹ does not require foreign exchange, and it has been relatively easy in the 1980s to equip new printing centres. Expansion at *Eenadu* and *Malayala Manorama* illustrates the process. *Eenadu* opened four new centres in district towns in the 1980s—Tirupati, Karimnagar, Anantapur and Rajahmundry. *Malayala Manorama* started printing from Thiruvananthapuram

GRAPH 1: DAILIES—ALL LANGUAGES, ENGLISH AND HINDI, 1967-88 ('000 copies per day)



and Palakkad in the same period.

The ability to produce fresher, better-looking newspapers in larger quantities is a condition for, but not a cause of, the expansion of the 1980s. People have to have the ability to read—and buy—such newspapers.

LITERACY

Literacy in India has increased steadily since 1951. In 1991, the census found 352 million literate people, roughly equalling the total population of 1951.¹⁰ But a popula-

tion that can read is not necessarily a population that buys newspapers.

A comparison of newspaper-sales and literacy figures between Telugu, the language of the southern state of Andhra Pradesh, and Hindi, the national language, prevalent throughout north India, hints at the absent ingredients. The comparisons by necessity are rough, but worth making. The literacy rate for Andhra Pradesh at 45.1 per cent in 1991 was higher than that of any of the four large Hindi-speaking states.¹¹ Yet there is a striking difference between the

ratio of daily newspapers to 1000 speakers of the language: 21 dailies per 1,000 in Hindi but only 10 per 1,000 in Telugu. Even allowing for the roughness of the calculations, the contrast is striking.¹²

Why should a larger proportion of literate people buy proportionately fewer daily newspapers? Part of an answer could relate to purchasing power and disposable income.

PURCHASING POWER

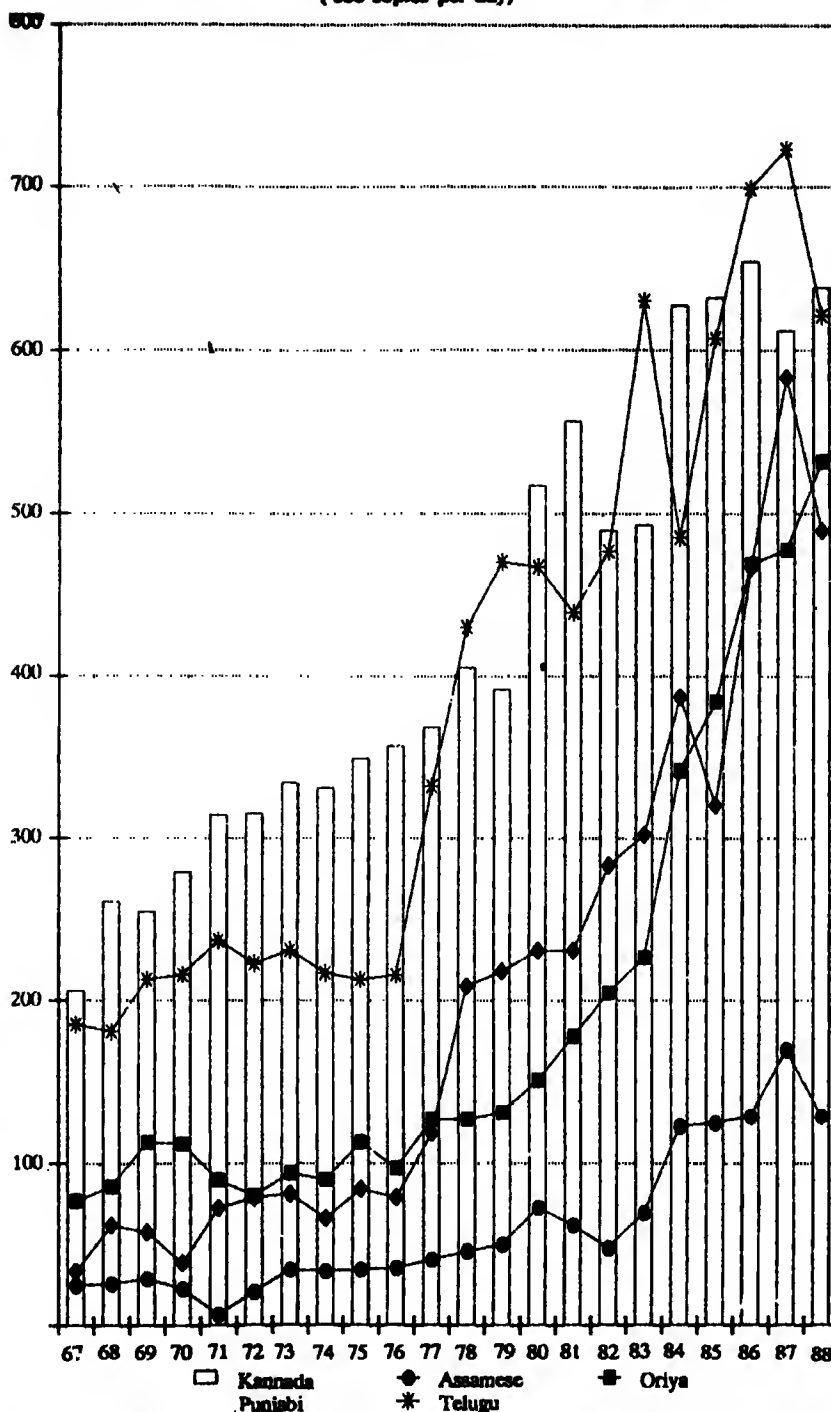
In fact, purchasing power appears to play only a small part in determining whether a person spends money on a newspaper. In 1993, the purchase of a daily newspaper represented an expense of between Rs 50 and Rs 60 a month (most dailies sold at about Rs 1.75). This totals Rs 600-700 a year or the equivalent of more than 100 kg of rice. Moreover, in Kerala average per capita income in 1990 was estimated at only Rs 3,389. The cost of a daily newspaper thus represented 20 per cent of average annual income. Even in Punjab, with the highest average per capita income of Rs 7,081, the cost of a daily newspaper represented 10 per cent of annual income.¹³ In the 1980s, moreover, Kerala and Andhra Pradesh had roughly the same average per capita income (about Rs 2,300), slightly below the national average.¹⁴ In absolute numbers, Andhra had about two million more literates than Kerala.¹⁵ Yet Malayalam dailies sold more than twice as many each day as Telugu dailies—1.7 million to 720,000.¹⁶ Nationally, Malayalam dailies in the late 1980s sold roughly 58 copies for every 1,000 Malayalam-speakers. Excluding Urdu,¹⁷ Gujarati was a distant second at 30 copies per 1,000 speakers.

Why should Kerala's Malayalam-speaking people, though with per capita income of no more than the national average, purchase newspapers at roughly twice as great a rate as other Indians? Politicisation—a craving to know and participate—is perhaps the most important reason. But before examining politics, it is necessary to explore the impetus that capitalism provides to the newspaper industry.

Rising newspaper circulations require aggressive entrepreneurs who seek to expand their newspapers. Though most owners will proclaim their desire to serve the public, their main goals are power and profit. The editor-owner of a one-family daily with a circulation of 3,00,000 in 1993 reflected:

What is the aim of the capitalist to enter ... this field [of journalism]? Obviously he will say for profit [but] it is not ... You will find that the return is so small that no capitalist worth his name will enter this profession ... Why [has]

GRAPH 2: DAILIES—FIVE LOWER-CIRCULATION LANGUAGES, 1967-88
('000 copies per day)



he ... come to this? Because he wants to keep some strings of publicity—the most attractive material in the newspaper industry—in his hands, so that he can manipulate it, get things done from ministers. And ministers also welcome him, not because he is somebody who matters but because he is somebody who can give them publicity, good publicity and also ... bad publicity. That is our strength—that people are worried about our publishing bad publicity. And some people are hungry for publicity, particularly the politicians.¹⁸

Publishers may represent 'new money', people seeking to gain influence and notoriety through ownership of newspapers.¹⁹ But longstanding family newspaper businesses also show a capacity to become more commercially oriented. This sometimes occurs when a younger, market-oriented generation takes over the management.

When the 'emergency' ended in 1977, newspaper circulations spontaneously shot up—initially, without new technology or notable efforts by publishers. It was obvi-

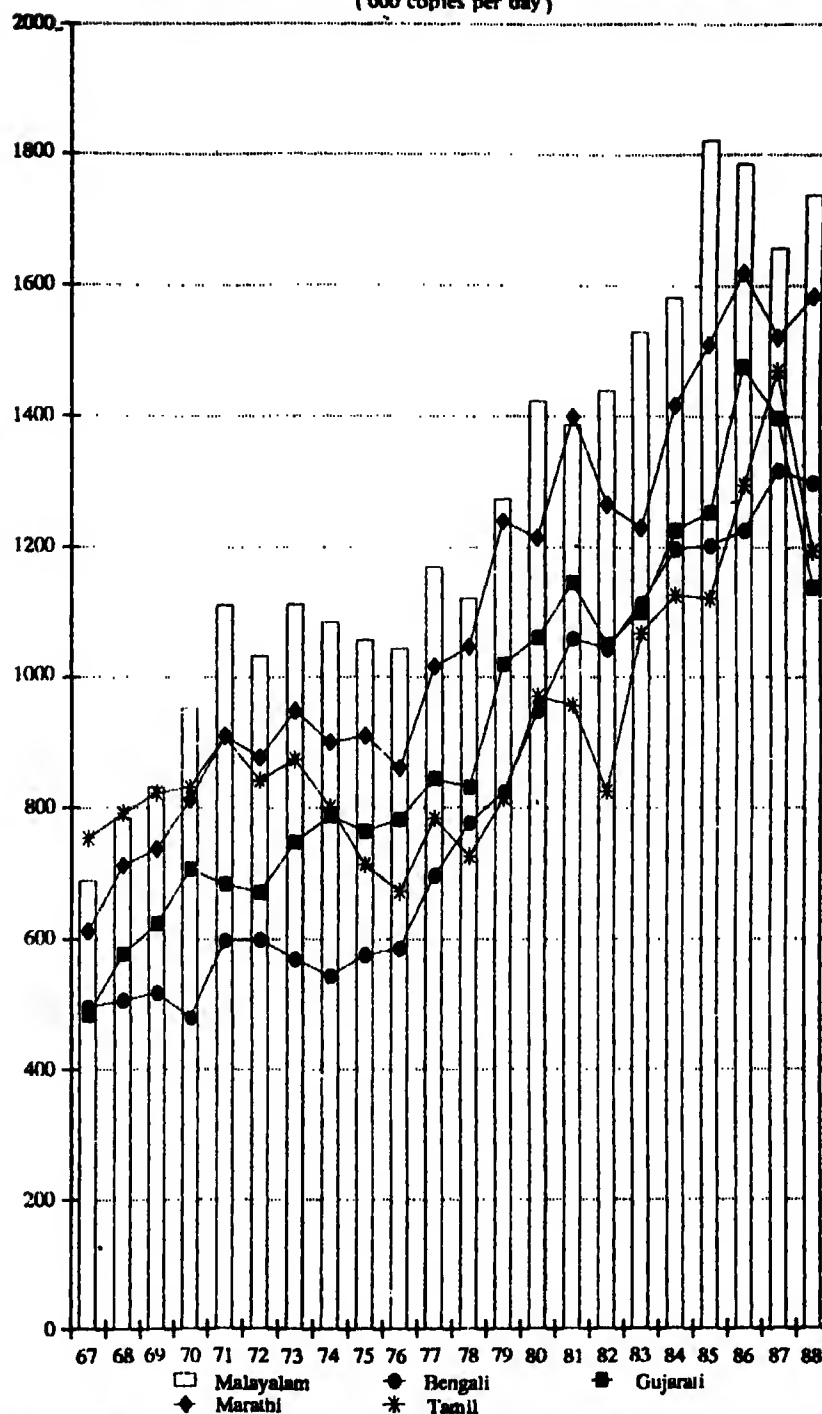
ous, however, that an expanding market existed. To hold their ground against, or to steal a march on, competitors, existing newspapers began to improve their printing, distribution and promotion. Few successful new dailies were started. (The Bengali *Aajikal*, begun in 1981, is one. *Eenadu* had started in 1974).²⁰ But existing dailies either expanded, or, if they did not, began to fail.

The logic of capitalism has driven the expansion of Indian-language newspapers as strongly as a thirsty potential readership. In 1978, the second National Readership Survey (NRS-II), based on 45,750 interviews in 474 towns, concluded that 55 per cent of literate urban adults read a daily newspaper and 78 per cent of such adults read a publication of some kind.²¹ It was estimated that the print media now reached close to 50 million people.²² Between the first NRS in 1970 and the second in 1978, people exposed to the print media increased by two-thirds, the largest increase being in provincial towns of fewer than 1,00,000 people.²³ Such towns were largely served by newspapers in Indian languages.

Major advertisers and advertising agencies, who are the main sponsors of the National Readership Surveys, thus had their attention forcefully drawn to the Indian-language press. Previously, conventional wisdom held that the readers of Indian-language publications did not have sufficient income to buy expensive goods. Major advertising therefore flowed automatically to the English-language press.²⁴ NRS-II began to change such attitudes, and advertisers and agencies began to attend with greater interest to the Indian-language press. Towns with fewer than 1,00,000 people were calculated to contain more than 40 per cent of urban India and a quarter of the residents of such towns fell into the top two income categories of the NRS.²⁵ To reach such people, advertisers would have to use Indian-language newspapers.

Change in the organisation and goals of a number of Indian-language newspapers began from about this time. At *Eenadu* in Andhra Pradesh, the proprietor, Ramoji Rao, had begun his career in advertising, and he brought to *Eenadu* from its opening in 1974 the techniques of capitalist, market-oriented industry with a 'product' to sell. Older newspapers came—and are coming—to this position more slowly. K M Mathew, editor-proprietor of *Malayala Manorama*, convinced that without professional management techniques the newspaper could not flourish, called in consultants in 1979 and reorganised the entire newspaper in 1980.²⁶ The thrust of such changes has been to bring professional managers into circulation and advertising departments—now usually called 'marketing'—and to introduce the language of the Master of Business Administration (MBA). As one MBA, recently employed to

GRAPH 3: DAILIES—FIVE HIGHER CIRCULATION LANGUAGES, 1967-88
('000 copies per day)



transform the circulation department of another major Malayalam daily, put it, those in charge of advertising and circulation in the old set-up were 'responsible' but not 'accountable'. His task is to "implant a marketing culture".²⁷ Now targets are set and must be met; sales records are examined.

From the mid-1980s, competition for advertising became three-sided: the English-language press vs the Indian-language press vs television. Indian-language newspapers began to attract a much larger share, though even in 1987, the most impressive year,

English-language newspapers retained more than 50 per cent of expenditure on press advertising.²⁸ Television now attracted the major share of advertising expenditure for a number of products.²⁹ For example, Hindustan Lever, India's biggest advertiser, spends only 9 per cent of its advertising budget on print media in 1993, but half of the print allocation now goes to Indian-language publications.³⁰

More significantly for the future, advertisers are placing their ads with "leaders' within each language" and moving away

"from medium-sized publications."³¹ A process has begun in which only the large and aggressive will survive.

The need for advertising fuels the drive to increase circulation. Major advertisers generally buy space in the largest circulating publications, which can charge higher rates because of their high circulations. For example, the advertising tariff in *Malayala Manorama*, India's largest-selling daily, was Rs 310 a column centimetre in 1993; in *Mathrubhumi*, its nearest Kerala rival (4,42,000: ABC, July-December 1992), the rate was Rs 285.³²

Newspapers are in a paradoxical position. Because the cost of production is greater than the selling price, rising sales may mean lost money. Yet to be able to raise their advertising rates, they must convince advertisers that the paper's circulation—its 'reach'—has increased.³³

Thus the needs of competitive capitalism led owners to invest in new printing centres and equipment in the 1980s to push their newspapers into more remote areas. Such proprietors believed that if readers could be provided with "latest news [and] early supply,"³⁴ they would subscribe to the newspaper. However, the readiness with which literate people in areas newly covered by a morning daily bought the newspaper depended heavily on local conditions, particularly politics.

POLITICS

In Kerala, the newspaper habit was noticeable from the 1920s and entrenched by the 1960s.³⁵ The crucial ingredient was political involvement, especially local politics. Journalists at *Malayala Manorama* date the paper's success in establishing a large following in northern Kerala from 1968 and its brilliant coverage of Naxalite attacks on police stations in the area.³⁶ In 1966, *Malayala Manorama* had an audited circulation of 1,64,000; by the first half of 1971 it had reached 3,10,000.³⁷

A similar process can be seen in Andhra Pradesh where owner-editor Ramoji Rao of *Eenadu* helped to create the Telugu Desam Party of N T Rama Rao for the state elections of 1982.³⁸ For the last six months of 1981, *Eenadu's* average daily circulation was 1,98,000 copies. For the same period a year later it was 2,72,000 copies, a rise of 37 per cent.³⁹ By the end of 1983, it had reached 3,37,000, an increase of 70 per cent in two years.⁴⁰ A study of a village in Srikakulam district, the most northerly and one of the most remote of Andhra Pradesh's districts, found no newspaper subscribers before the election; but once the campaign began, three villagers and the panchayat office started subscribing to *Eenadu*, brought each day by high-school students returning from a neighbouring town. It was estimated that a

single copy had up to 50 readers. Interviews showed that readers liked *Eenadu* because of its "detailed coverage of the regional news", especially about election candidates.⁴¹ The figures of the Registrar of Newspapers support the suggestion that election excitement over the Telugu Desam Party enhanced circulations: Telugu daily circulations rose from 4,39,000 in 1981 to 6,30,000 by 1983, an increase of 44 per cent in two years.⁴²

The importance of political involvement also suggests itself—ominously—when one examines the growth of circulations in Hindi. In the 1980s the most striking aspect of Indian newspapers has been the expansion of the Hindi daily press. Between 1981 and 1988, Hindi dailies increased their circulations by 75 per cent, according to the Registrar's figures. Hindi dailies audited by the ABC rose by 32 per cent in that period. More significantly, ABC dailies in Hindi, having reached an audited circulation of roughly 3.5 million by 1992, had at last outstripped the circulations of audited English dailies (2.9 million).⁴³ By 1988, the ratio of Hindi dailies per 1000 Hindi-speakers had risen 50 per cent in eight years and had reached the low 20s, comparable to Bengali and Tamil figures.

If we measure the checklist (see above) of requirements for growing newspaper circulations against the experience of Hindi dailies in 1980-92, there is evidence to support the proposition that newspaper circulations increase where political interest increases. In the great Hindi-speaking states of Bihar, Madhya Pradesh, Rajasthan and Uttar Pradesh (UP), transportation in this period improved only slightly.⁴⁴ However, new technology in printing and communications allowed faster production and distribution of newspapers. The ready availability of good offset presses has meant that new printing centres can be started fairly cheaply and easily. The largest selling Hindi daily, *Punjab Kesari* of Jalandhar, opened a New Delhi edition in 1983 and began printing from Ambala in 1992.⁴⁵ Similarly, the three major Hindi dailies of Uttar Pradesh now pub-

lish from a number of centres—Aj(8), *Amar Ujala* (5) and *Daily Jagran* (7). New Hindi dailies have been started, of which the most notable is *Rashtriya Sahara*, begun in August 1992 from New Delhi and Lucknow with plans for a Kanpur edition.⁴⁶

Telephone modems now provide an efficient way of moving copy. A single newsdesk in one centre can translate news-service stories, input them in Devanagari script, format them on computer and then send them by telephone lines to other printing centres. This decentralisation of printing means that the newspaper reaches distant areas in a short time and thereby is brought much closer to potential readers. Anecdotal evidence is telling. A computer scientist from Saharanpur in western UP told of his surprise to see in the past two or three years that his father was subscribing to *Amar Ujala*, publishing from nearby Meerut since 1986, which now reached their village before 8 am.⁴⁷

Major increases in literacy rates have yet to occur in the four big Hindi-speaking states where, even by Indian standards, literacy is low. Against an all-India literacy average of 52 per cent of the population over 7 years of age, Bihar stands at 39 per cent, Madhya Pradesh 44 per cent, Rajasthan 39 per cent and UP 42 per cent.⁴⁸ Nevertheless, these figures themselves represent a literate population of more than 110 million people in 1991.⁴⁹ Taking the generous figures of the Registrar of Newspapers, the four states in 1988 circulated about six million daily newspapers in all languages,⁵⁰ or a ratio of 55 dailies per thousand literates. This approaches the Kerala ratio, but in Kerala more than 90 per cent of the population is literate. Given the large number of readers per newspaper (usually estimated between six and 12—the figure of 50 noted in the Telugu survey would be abnormal), this 50:1000 ratio may represent a plateau of newspaper consumption in a rural society.

In the early 1980s, tens of thousands of literate Hindi-speakers did not see a daily newspaper. A survey in 1981 found that in Ballia district in the less-developed area of

TABLE 1: HINDI AND TELUGU LITERACY RATES AND DAILY NEWSPAPER CIRCULATIONS

Language	Speakers 1988	Per Cent Literate 1991	Daily Newspaper Circulation 1988	Dailies Per 1,000 Speakers
Hindi	306.7 m		6,429,000	21
Bihar		38.5		
Madhya Pradesh		43.5		
Rajasthan		38.8		
Uttar Pradesh		41.7		
Telugu	62.9 m		6,21,000	10
Andhra Pradesh		45.1		

Sources: For literacy (people over seven years of age), *Statistical Outline of India, 1992-93*, Tata Services, Bombay, 1992, p 36. For Languages, *Statistical Outline of India, 1989-90*, Tata Services, Bombay, 1989, p 44, with calculation of 2.3 per cent annual increase over seven years from 1981. *Press in India 1989* [hereafter *PII* + date]. (Ministry of Information and Broadcasting, New Delhi, n d [c 1992], p 37.

eastern UP, between half and three-quarters of people never saw a newspaper. Of literate respondents, 37 per cent said they did not read a newspaper because one was not conveniently available.⁵¹ Thus the decentralised printing and improved distribution of the 1980s was able to draw on a large potential audience.

A significant portion of that audience had more purchasing power at the end of the 1980s than at the beginning. Per capita income in Bihar, Madhya Pradesh, Rajasthan and UP was estimated to have grown by 140 per cent between 1980-81 and 1989-90.⁵² This is no doubt the roughest of measures, but it suggests that the price of a newspaper was within the reach of many more people in 1990 than it had been in 1980.

Aggressive publishers had an interest in attracting uncommitted rupees. The families that own *Dainik Jagran* (seven centres and circulation of 4,65,000 by 1988),⁵³ *Aaj* (five centres and 3,00,000)⁵⁴ and *Amar Ujala* (five centres and 2,63,000)⁵⁵ have opened 14 new centres since 1979. All three are closely held family enterprises that originated with single-edition dailies founded after independence in Kanpur, Varanasi and Agra respectively.⁵⁶ As with proprietorial families elsewhere, they gauged that to profit and survive their newspapers had to streamline and expand. Rivals open editions in the headquarter towns of their competitors as part of a contest for circulation and advertising. In 1993, for example, four major Hindi dailies were publishing in Kanpur, home of *Dainik Jagran*, and a fifth was importing a special Kanpur edition from Lucknow.

What has driven Hindi circulations and made such competition seem necessary, though not always profitable?⁵⁷ The answer is bound up with politics and the social excitement generated in the Hindi-speaking north since the mid-1980s by the controversy at Ayodhya. In the second half of 1992, which includes the month of December when the mosque at Ayodhya was destroyed by rioters, audited circulation for seven *Aaj* editions in UP and Bihar rose by 41,000 copies; for four *Amar Ujala* editions, by 25,000; and for four *Dainik Jagran* editions, by 18,000.⁵⁸ A stirred population wanted news, and state-controlled electronic media were found untrustworthy and unsatisfying.

The standard of coverage—reporting, editing and presentation—of Hindi dailies since 1990 has dismayed many observers. Though there is general agreement, even among its critics, that the Hindi press 'behaved better' in December 1992 than in November-December 1990 when the previous Ayodhya-related violence occurred, the performance in 1990 was amazingly irresponsible. The Press Council of India censured *Aaj*, *Dainik Jagran*, *Swatantra Chetna* and *Swatantra Bharat* for their treatment of the clashes

between police and demonstrators at Ayodhya in November 1990. The newspapers were "guilty of gross irresponsibility and impropriety, offending the canons of journalistic ethics in promoting mass hysteria on the basis of rumours and speculation".⁵⁹ In one example, a '1' had been inserted by hand in front of '15' in a casualty headline to inflate the number of dead to '115'. In another, bars were drawn across the photo of a Hindu religious leader to give the impression he was in prison. And all four papers were held to have used wild—and unconfirmed—headlines.⁶⁰ On December 11 and 13, the Agra edition of *Aaj* published untrue stories that Hindi patients were being killed in the hospital of Aligarh Muslim University. It carried a leader claiming that the reports—subsequently proved totally false—had been confirmed. The reports were later claimed to have provoked riots in Kanpur, Varanasi and Agra.⁶¹ The Press Council censured *Aaj* in July 1991; the newspaper did not appear before the Council to defend itself.⁶²

Does such reporting result from a lust for circulation or from untrained, partisan journalists? The latter seems the more important part of an answer. The training and conditions of Hindi journalists are generally poor. The newsrooms of large Hindi dailies are often primitive with not even a reference book—much less a library—to be seen. (This contrasts with dailies like *Eenadu*, which has an outstanding library in Hyderabad, or *Sakal* and *Malayala Manorama*). Journalists do—not so much as they please—but as they think will please their proprietors. The fact that *Aaj* did not defend itself before the Press Council indicates that the proprietors were not particularly upset by the way in which their journalists manufactured the 'Aligarh hospital story'.

The effect on circulations of such ill-founded, spectacular stories is not clear.

The Hindi daily that appears to have done best in the second half of 1990 was *Amar Ujala*, which added 32,000 copies to its July-December sales. It largely escaped the Press Council's strictures. (It had briefly picked up the *Aaj* Aligarh story in a late edition, but killed it later and published a contradiction.)⁶³ *Aaj* circulations are difficult to gauge because the paper appears to have been fending off the Audit Bureau of Circulations at this time; the ABC recorded remarks of "not accepted" and "under recheck audit" for the relevant periods. *Dainik Jagran's* circulations, however, remained relatively stable. It would be comforting to believe that the least inflammatory newspaper was the one that most people turned to at a time of upheaval. It is more likely, however, that *Amar Ujala's* increases resulted from conditions peculiar to its regional stronghold in western Uttar Pradesh—perhaps from the fact of its being the dominant newspaper in the region in which the 'Aligarh hospital' canard originated and where it may be presumed to have caused greatest excitement.

Indian-language newspapers will continue to expand, and advertising revenue and political excitement will continue to shape them. If the present Indian state survives, there seems little doubt that capitalism and consumerism will continue to grow. Indian-language newspapers will play a key part in spreading consumerist messages beyond the large towns. In so doing, we can expect one—at most, two—major newspapers to become dominant in each language region. The diversity and competition that currently characterises most of the language regions seem likely to be obliterated in the next 10 years.

Yet the multiplicity of languages offers some guarantee against a national domination of the print media by one or two chains. Neither the *The Times of India* nor the

TABLE 2: DAILY NEWSPAPERS PER 1,000 SPEAKERS OF MAJOR INDIAN LANGUAGES, 1981 AND 1988

Language	Speakers 1988 '000,000	Circulation 1988 '000	Papers Per 1,000 Speakers 1988	Papers Per 1,000 Speakers 1981
Assamese	12.3 m	129	11	6
Bengali	59.8	1,299	22	20
English	16.3	4,276	262	250
Gujarati	38.6	1,138	30	37
Hindi	306.7	6,429	21	14
Kannada	31.2	638	21	22
Malayalam	30.2	1,737	58	53
Marathi	57.6	1,584	28	27
Oriya	26.6	532	20	8
Punjabi	21.6	489	23	12
Tamil	51.9	1,193	23	21
Telugu	62.9	621	10	8
Urdu	41.0	1,363	33	22
Total	756.7	21,563	29	23

Sources: *Press in India* 1989 [hereafter *PII* + date]. (Ministry of Information and Broadcasting, New Delhi, n.d [c 1992], p.37. For Languages, *Statistical Outline of India, 1989-90*, Tata Services, Bombay, 1989, p.44, with calculation of 2.3 per cent annual increase 1981-88.

Indian Express groups has been notably successful in attempts to run newspapers in Indian languages.⁶⁴ Regional newspaper groups like *Ananda Bazar Patrika* and *Malayala Manorama* started 'national' weekly publications in English—*Sunday* and *The Week* respectively—but neither threatens established English publications. Similarly, *Eenadu*'s English daily *Newstime* has difficulty holding its own in Hyderabad, much less becoming a national force.⁶⁵

The sheer number of highly developed languages in India ensures against the sort of national chain dominance that afflicts the press in countries like the US, Canada and Australia. Similarly, the dominance of a 'national' press—the Paris press in France or the London press in Britain, for example—is an impossibility. This is not to say that diversity of views and enterprising news coverage will be a consequence. It is conceivable that individual newspapers, once dominant in their language region, will stifle competition and indeed promote local chauvinism or even secessionism. But extreme stances from established newspapers are unlikely. Major newspapers are too vulnerable—they need newsprint, ink, electricity, phone lines, petrol, trucks, access to roads—to wish to do more than gently rock the boat. The more likely result of one-paper dominance is cost-cutting on news-gathering and production. But as long as it is economically feasible to start new newspapers, lacklustre dominance can be challenged by other capitalists seeking the prestige and influence that comes from owning a daily.

Readers also retain some power to influence what they read: they 'vote' every day in the referendum of buying a newspaper. The evidence I have seen so far leads me to believe that a desire to be informed about political excitement, particularly local political excitement, is the key element that initially induces people to become regular newspaper readers and buyers. For owners and publishers, however, it is not enough simply to provide the news readers want: If they are to pay their bills, they must also court and satisfy advertisers. There is no doubt a power of the press. But newspapers are more shaped—by the needs of advertisers and the passions of readers—than shaping.

Notes

- 1 Major Indian newspapers are produced in 13 languages written in 10 different scripts.
- 2 These are the figures of the Registrar of Newspapers for India (RNI), a central-government functionary whose office was created in the 1950s. Notoriously unreliable, they depend on submissions from the newspapers themselves, and the registrar has little capacity or inclination to check them. However, the figures are indicative. For

example, they fall at times when one would expect them to fall (e.g. during the 1975-77 Emergency), and they rise at times when it is advantageous to be recognised as a newspaper proprietor. Because the registrar's approval is necessary to use a new newspa-

per title, and because the registrar played a large part until recently in allocating newsprint, the statistics have some value if used with care and grains of salt.

- 3 I have omitted Urdu from this discussion. As a national language, but one thought to

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- have little advantage for advertisers, it raises special questions. For example, only four Urdu dailies were members of the Audit Bureau of Circulations in 1992. Urdu is thought to be a dying language in India, yet claimed Urdu newspaper circulations have risen respectably. See Robin Jeffrey, 'The Mystery of the Urdu Dailies', *Vidura*, January-February 1988, pp 38-40.
- 4 Hindi and Marathi are written in the same script, as are Bengali and Assamese. Kannada and Telugu are written in very similar scripts.
 - 5 ABC. *A Preliminary List of Circulations Certified for the Six Monthly Audit Period Ended 31st December 1988* [hereafter ABC ... + date] Audit Bureau of Circulations, Bombay, April 29, 1989, pp 1-7. ABC ... December 31, 1992, pp 1-8. The number of dailies in all languages belonging to the ABC rose by 20—from 137 to 157, a mere 15 per cent—in the same period. The ABC circulation figures are the most accurate available, though some people in the newspaper business dismiss them as unreliable. If one uses the figures of the Registrar of Newspapers, circulation of Hindi dailies exceeded those of English dailies for the first time in 1979 (Graph 1).
 - 6 Major advertisers and agencies are increasingly doing their own surveying. They also rely heavily on the Fourth National Readership (NRS-IV) carried out in 1990.
 - 7 N Bhaskar Rao, 'Media Advertising in India—1990-91', in *Press and Advertisers' Year Book, 1990-91* [hereafter PAYB], INFA Publications, New Delhi: 1991, p 81a.
 - 8 Interview, V Vasudeva Deekshitulu, editor, *Andhra Prabha*, Hyderabad, March 12, 1993.
 - 9 Interview, Jacob Mathew, resident editor and general manager, *Malayala Manorama*, Kozhikode, April 2, 1993.
 - 10 *Census of India 1991*, Series 1, India, Paper 1 of 1991, *Provisional Population Total*, Census Commissioner, New Delhi, 1991, pp 21, 61. The population in 1951 was 361 million.
 - 11 Literacy in the smaller Hindi-speaking units of Haryana (55.3 per cent), Himachal Pradesh (63.5) and Delhi (76.1) is much higher.
 - 12 Even if one compares Andhra Pradesh and Uttar Pradesh on total circulation of dailies in all languages against each state's population, Uttar Pradesh has a ratio of 20 dailies per 1,000 people; Andhra Pradesh, 15:1,000. This calculation uses *PII 1989*, pp 221, 285 and the 1991 Census population.
 - 13 *Statistical Outline of India, 1992-93*, Tata Services, Bombay, 1992, p 16.
 - 14 *Statistical Outline of India, 1989-90*, Tata Services, Bombay, 1989, p 16.
 - 15 *Census of India 1991*, Series 1, India, Paper 1 of 1991, *Provisional Population Totals*, p 73. There were 24.8 million literates in Andhra Pradesh and 22.6 million in Kerala.
 - 16 *PII 1989*, p 146.
 - 17 Urdu circulation figures are notoriously unreliable and those of the *Press in India* volumes for the 1980s seem inflated.
 - 18 Interview, Nilakantha Khadilkar, editor and owner, *Navakal*, Bombay, April 30, 1993.
 - 19 The recent acquisition of the *Pioneer* and *Swatantra Bharat* by the Singhania family would fall into such a category.
 - 20 PAYB 1990-91, pp 54c, 110c.
 - 21 NRS-II, *Management Summary*, 1978, pp 2, 8.
 - 22 Ibid, p 10.
 - 23 Ibid, pp 20, 22.
 - 24 See S P Singh in 'Who's Afraid of Hindi Journalism', *Vidura*, June 1992, p 7. Interview, Mrinal Pande, joint editor, *Hindustan*, New Delhi, February 10, 1993.
 - 25 Ibid, p 7.
 - 26 Interviews, K M Mathew, chief editor, *Malayala Manorama*, and Rajen Mathew, divisional manager, personnel, *Malayala Manorama*, both Kottayam, April 13, 1993.
 - 27 Interview, K C Venugopal, marketing manager—Circulation, *Mathrubhumi*, Kozhikode, March 31, 1993.
 - 28 N Bhaskar Rao, 'The Advertising Scene, 1987-88' in PAYB 1988, p 76a.
 - 29 N Bhaskar Rao, 'Media Advertising in India—1990-91' in PAYB 1990-91, p 84a.
 - 30 Interview, Irfan Khan, general manager, Corporate Communications, *Hindustan Lever*, Bombay, April 27, 1993.
 - 31 Bhaskar Rao, 'Media Advertising', p 85a.
 - 32 'Malayala Manorama Publications, Advertisement Tariff as on October 1, 1992', pamphlet. *Mathrubhumi* rates, applicable since November 1, 1992, provided to me in typescript, April 3, 1993.
 - 33 For example, a 16-page newspaper costing Rs 3 to produce may sell for Rs 2, of which 60 paise goes as commission to the agents and hawkers. The newspaper loses Rs 1.60 per copy. Profit comes from advertising. If 25 per cent of the paper is devoted to ads—a low ratio—and the ad rate is Rs 125 a column centimetre, the paper generates Rs 2,90,000 a day in advertising revenue. For the first 1,81,250 newspapers sold, the newspaper makes a profit—the Rs 2,90,000 in ad revenue, defrays the loss of Rs 1.60 per copy up to 1,81,250 newspapers. If the newspaper booms to 2,00,000 copies a day, the publisher loses Rs 1.60 x 18,750 copies = Rs 30,000 a day. But 2,00,000 may provide a milestone that will allow advertisement rates to be increased.
 - 34 N P G Prashad, advertising executive, *Eenadu*, Rajahmundry, March 9, 1993, explaining the philosophy behind the newest *Eenadu* publishing centre.
 - 35 Robin Jeffrey, 'Culture of Daily Newspapers in India', *Economic and Political Weekly*, April 4, 1987, p 608.
 - 36 Interview, M Gopi, Cannanore correspondent, *Malayala Manorama*, Cannanore, April 4, 1993. See *Malayala Manorama* for November and December 1968.
 - 37 PAYB, 1967-68, p 88 (ABC figure for January-June 1966), ABC ... January-June 1971, p 5.
 - 38 Interview, Kollu Ankababu, resident editor, *Udayam*, Vijayawada, March 8, 1993.
 - 39 ABC ... December 31, 1981, p 5 and ABC ... December 31, 1982, p 5. *Eenadu* had also opened a fourth publishing centre at Tirupati in this period.
 - 40 ABC ... December 31, 1983, p 5.
 - 41 Rao and Sharma, 'Regional Press', *Vidura*, Vol 22, No 2 (April 1983), pp 100-02.
 - 42 *PII 1982*, p 32, *PII 1984*, p 31.
 - 43 ABC ... December 31 1992, pp 3-5.
 - 44 *SO, 1992-93*, p 9. UP had only 42 per cent of villages linked by all-weather roads, Bihar 35 per cent, Madhya Pradesh 23 per cent and Rajasthan 21 per cent. In contrast, Kerala had 100 per cent and Punjab 98 per cent.
 - 45 Interview, Amit Chopra, Director—Production, Hind Samachar Group, Jalandhar, May 20, 1993.
 - 46 Interview, Kamlesh Tripathi, bureau chief, *Rashtriya Sahara*, Kanpur, May 14, 1993.
 - 47 Conversation, *Dakshin Express en route* to Hyderabad, February 22, 1993.
 - 48 *Cofl 1991*, Series 1, India, Paper 1 of 1991, PPT, p 73.
 - 49 Ibid, p 73.
 - 50 *PII 1989*, p 37.
 - 51 Nawal Singh and Manral, *Communication and Development* (New Delhi: Indian Institute of Mass Communication, 1981), pp 28-30.
 - 52 *Statistical Outline of India, 1992-93*, p 16.
 - 53 *PII 1989*, p 97. By 1993, *Aajwa* was publishing from eight centres.
 - 54 *PII 1989*, p 106.
 - 55 *PII 1989*, p 109. ABC ... December 31 1992, p 4, *Amar Ujala's* fifth centre in Kanpur was operating in May 1993 when I visited it. Its circulation is not included here.
 - 56 *Dainik Jagran*, Kanpur 1947; *Aaj*, Varanasi, 1957; *Amar Ujala*, Agra, 1948.
 - 57 One person I interviewed, who was in a position to know and whose identity must be kept confidential, estimated that a daily like *Rashtriya Sahara* was losing Rs 5,00,000 (US \$17,000) a day on its New Delhi and Lucknow editions.
 - 58 ABC ... December 31 1992, p 5.
 - 59 *Press Council of India Review* [hereafter PCIR], Vol 12, No 1 (January 1991), p 52.
 - 60 *PCIR*, January 1991, p 53.
 - 61 *PCIR*, July 1991, p 123.
 - 62 Ibid, pp 122-24.
 - 63 Ibid, p 124.
 - 64 *The Times of India* have the relatively successful *Nav Bharat Times* (Hindi) and *Maharashtra Times* (Marathi), but efforts to start a Gujarati daily flopped. The *Indian Express* has *Loksatta* (Marathi), *Janasatta* (Hindi), *Kannada Prabha* (Kannada), *Andhra Prabha* (Telugu) and *Dinamani* (Tamil). None is the 'market leader' in its region.
 - 65 The major success has been the Calcutta daily, *The Telegraph* (1,33,000: July-December 1992), founded by the *Ananda Bazar Patrika* group in 1982 and now a serious challenger to the *Statesman* (1,47,000: July-December 1992) in eastern India.

Trade and Exchange Rate Policy for India

Amya Kumar Bagchi

Prabirjit Sarkar

'IN the long run we are all dead', thus spoke John Maynard Keynes.

'Follow us and you benighted worshippers of regulation for public good, you shall live on milk and honey, Coca Cola and hamburgers—if you survive', thus pronounce Joshi and Little (1993).

It is difficult to make out whether one is surprised more by the innocence or the insouciance of the proposals of Joshi and Little. The innocence is displayed by their apparent lack of awareness that anything has happened, even in the area of mainstream economic theory, since the theorems on the second best propounded by James Meade and Kelvin Lancaster and Richard Lipsey. (Most of the Bhagwati-Srinivasan or Little-Mirrlees exercises are simply variations on the second best theories of the welfare economics of the 1950s.) The innocence is also displayed by their apparent ignorance of what has happened to Indian exchange rates, balance of payments and economic growth since the 1970s. (Note that the only substantial references to their own work by Joshi and Little are to a book published in 1970 and a paper published in 1971.) But perhaps the insouciance is even more striking than the innocence. By simply ignoring most of the actual problems of the Indian economy in the 1970s and 1980s, or the actual geopolitical setting of the international economy, they come out with recommendations which would have gladdened the heart of a Frederic Bastiat, a J R McCulloch or a Marquis of Salisbury.

Given the fact that most of the arguments of Joshi and Little are based on fantasy, they would hardly have been worth rebutting, except for the fact that they are supposed to have studied the problems of the Indian economy for quite a number of years, and anything coming out of the west is considered to be wisdom in official circles.

First of all, given the kind of assumption that Joshi and Little make about the long run, why should there be any tariffs (of even 10 or 15 per cent) on imports into India at all? With free trade, free mobility of capital, free migration of labour between different countries, no problem of securing the borders, no military threats anywhere, and with minimal government, perhaps a poll tax on all working adults (and all able-bodied adults would work in such a frictionless, wisely governed world) would be enough. Then why do Joshi and Little bother to take up the Chelliah Committee

proposals at all? After all, whether we agree with the proposals of that committee or not, our agreement or disagreement must take into account the fact that the proposals are meant for the actual situation in India right now. Joshi and Little's arguments have little bearing on the question of 'here and now' in respect of policies governing import regulation, export promotion, exchange rate regimes or budgetary policies. We will demonstrate the irrelevance of Joshi and Little's arguments in the area of the exchange rate regime and let the readers draw the obvious parallels in the case of the use of other policy instruments.

At the very outset of the oracular pronouncement by Joshi and Little, we meet the following statement: "Sound macro-economic fiscal and monetary policies together with a flexible exchange rate, ensure the maintenance of a viable overall balance with foreigners". This is a catch-all statement: apparently it should cover all possible sins. For, after all, 'with sound monetary and fiscal policies', why should anything go wrong in the most perfect of all possible worlds? But, in fact, Joshi and Little are living in a Mundell-Fleming world. This is basically an 'insular economy' as defined by McKinnon (1981), in which capital flows occur either on official account only, or passively in response to current accounts deficits. There is no place in that world for asset-owners deliberately changing the composition of their portfolios of domestic and foreign assets in response to changes in their perceptions of relative profitability of different types of assets. That is to say, it has no resemblance to the world that has emerged since the 1960s, of transnational corporations and banks continually changing the composition of their portfolios and their operations as between assets denominated in different currencies or located in different countries, or of large volumes of funds continually changing hands as between different nations or regions as speculators' moods and judgments change. Virtually none of the propositions on which the easy assurance of the virtue of flexible exchange rates in ensuring greater internal stability is based remain unchanged in this world of globalised capital flows (see, for example, Kenen 1985; and Frenkel and Mussa 1985).

But, of course, Joshi and Little descend from their preachers' pulpit to the posture of quotidian consultants tendering friendly

advice to an Indian government pursuing what they regard as an essentially sound but somewhat muddled set of policies. Approving of the flexible exchange rate introduced in India, they write, "There is no need to fear that the exchange rate may fail as an instrument to maintain a viable balance of payments—provided, of course, that macro-economic policy gives it room to operate, that is, that there is no large general excess demand for domestic output". It appears from discussion elsewhere in their paper, that by 'flexible exchange rates' Joshi and Little really mean a policy of devaluation whenever a balance of payments deficit threatens and believe that a sufficiently large devaluation of the rupee will always cure a balance of payments deficit.

The implicit claim in their paper that before July 1991 India had maintained a policy of fixed exchange rates is utterly false. The nominal exchange rate of the rupee (in rupees per US dollar) was fixed up to June 5, 1966; then it was raised to Rs 7.50, and stayed at that price up to 1971-72, but from 1972-73, the price rose almost steadily (with a break in the years from 1977-78 to 1980-81 when the rupee appreciated in terms of US \$ but not in terms of SDR) to Rs 8.968 in 1981-82 and Rs 17.943 in 1990-91 [RBI 1993: Table 35]. According to a study by H K Pradhan undertaken on behalf of the Export-Import Bank of India [EXIMBI 1992], the index of the real effective exchange rate of the rupee (with base: 1980 = 100) with the wholesale price index being used as the deflator for exchange rates of the major trading partners, declined from 129.21 in 1970 to 81.36 in 1988 and with the consumer price index as the deflator, from 147.23 in 1970 to 81.80 in 1988 [EXIMBI 1992: Table 5.9], that is, by 37 per cent according to the first measure, and by 44 per cent according to the second. While a policy of devaluation according to requirements of international competitiveness or easing of current account deficits can certainly be adopted from time to time, there is little justification for a blanket espousal of a policy of devaluation as a basic remedy for balance of payment difficulties. At the risk of labouring the obvious, the following points can be made in the particular context of the Indian economy in recent times [Sarkar 1992].

The hoped-for expansion in exports resulting from currency devaluation may not be realised because of well known factors such as the inelasticity of global demand for commodities, or competitive devaluation by other competing countries. The computing of partial elasticities of demand without taking such a possibility into account runs up against the 'fallacy of composition'

Under a regime of liberalisation, the import component of many goods rises and when substantial devaluation occurs, the domestic cost of production of exportables also rises. Even with competitive conditions, exporters may not then be in a position to cut their prices in foreign markets, in proportion to the rate of depreciation of the currency. With restrictive practices in home markets—practices that may be facilitated by endemic foreign exchange shortage—exporters may find it easier to exploit domestic rather than export markets.

In a period of global recession only those goods experience a fast rise in demand which are favoured by changes in taste or major changes in technology. Those goods are typically new goods, results of an innovative technology or an innovative product differentiation. People whose incomes rise demand these but even people experiencing a fall in income have an urge for such goods or services. But they naturally require new investment, and old products and facilities cannot be used for their production without considerable modification. Hence large amounts of investment have to go into their production. Economic calculations extending over any length of time involve a greater degree of risk if exchange rates become volatile. The required supply response may not be forthcoming in that case.

Joshi and Little seem also to have slept through the whole series of attempts to stabilise the exchange rate mechanism (ERM) as a step towards arriving at a unified European Monetary System. These attempts have failed in the case of Britain and Italy but other countries are still persisting with them, with the bands of tolerance for exchange rate variations having been widened for the weaker economies. Turbulence in exchange rates in a regime of virtually free trade (under which the import intensity of domestic production is likely to be quite high) is bound to affect most domestic prices, and thus disturb the macro-economic balances that the government and monetary authorities seek to attain. There is considerable evidence that the import intensity of Indian manufactures and of Indian exports was going up during the 1980s [EXIMBI 1991]. The implication of such developments has also escaped the attention of Joshi and Little.

Finally, Joshi and Little take no account of the protectionist policies being pursued in the G-7 countries—policies whose virulence shows no sign of declining. The enunciated theoretical framework of static comparative advantage cannot explain the resurgence of interventionist industrial policies in the US or the success of a number of explicitly interventionist Japanese policies in building up their automobile industry, their biotechnological expertise, their supercomputers and their well-recognised

lead in many areas of military technology. Just because the static version of the comparative advantage theory dogmatically embraced by Joshi and Little cannot take account of the theoretically and empirically rich literature on the building up and consequences of strategically utilising dynamic comparative advantage (for references to which see, among others, Krugman 1986; Porter 1990; Bagchi 1992), it does not mean that others need to follow these wise men into the desert of passivity of industrial or exchange rate policy.

We have already referred generally to the success of industrial policies in the case of Japan, and the casual dismissal of the South Korean successes by Joshi and Little can be countered with a plethora of evidence to the contrary.

We merely here reiterate that the Japanese victory in the race for parity with the US in semi-conductor technology, for example, has been unambiguously ascribed to public regulation and support [Sigurdson 1983; Okimoto et al 1984 and Borrus et al 1986]. The Japanese success in importing technology and importing it and then beating the original developers in international competition has been replicated by other east Asian countries. In South Korea, private firms contract out research needs to state-controlled or other laboratories and collaborate with them for adapting imported technology to local needs. It has managed to forge highly efficient instruments for upgradation and absorption of technology [Bagchi 1987: Chapters 3 and 5].

Looking at the historical record of today's developed countries, a broad generalisation can be made: all of them had restricted trade regimes in place during the period when they were experiencing trend acceleration in economic growth. Even when they were practising such restricted trade regimes, they were advocating free trade policies for others. The US and European policy-makers are more or less forcing the LDCs to introduce external trade liberalisation, but their protectionist barriers are going up in the shape of multifibre agreements, voluntary export restraining agreements and straight subsidies of agriculture, steel and many other industries under threat from foreign competition [Bagchi 1992]. The Indian government and industrial managers can try to redesign our incentive system, the system of macro-economic management, and the system of industrial organisation so as to allow an activist policy to be sustainable and produce positive results. If Indian policy-makers must have wise men of the west to give them confidence, they should pay more heed to the advice and caution of Dornbusch (1990) or Taylor (1991). Following Joshi and Little's advice would be to condemn India to economic stagnation in the medium term

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Decline of ULFA

Niranjan Phukan

IT is interesting that Udayan Misra, who happens to be an Assamese with the advantage of direct knowledge and observation of the things he describes, should choose to write about the ULFA (*EPW*, August 7-14) in a tone of dry detachment, more or less in the same vein as that of Naipaul writing on the Caribbeans. The bland and somewhat superior objectivity deliberately evades the present crisis of Assamese society and politics, of which the ULFA is a symptom. Misra thus toes the government line both in Delhi and Dispur, which administers drastic medicines, without caring to diagnose the disease.

Chronologically the ULFA had its origin in the waning phase of the Assam Movement, when political agitation no longer seemed capable of fulfilling the aims of the movement and armed struggle appeared to be a logical and viable alternative. The armed militants were thus a branch of the movement, and colleagues of the leaders who later became ministers of the AGP government in Assam. They were neither mere adventures nor anti-socials, whatever their mistakes and crimes. The real root of the problem is thus the perception of the people of Assam that they are now powerless to take any significant decision on matters affecting their present life and future destiny. Whether in the matter of control over the natural resources of the region, or in the question of the pattern of development, or in the matter of maintaining the old demographic balance, or for that matter in the question of preserving the substance of their traditional culture from contamination of unwanted outside influence, their views and sentiments are getting increasingly marginalised. There is a shared if silent belief that this political impotence has been a by-product of the process of development of the Indian state. Smart manipulators from outside the state with the help of native collaborators, without any understanding or respect for the beauty and dignity of the way of life they are destroying, are propagating a reading of the situation that serves their ends and interests.

Development since independence has not meant an alteration in the colonial pattern of exploitation—exploitation of the natural resources of the state by outside forces for their profit and the use of the state as a captive market for goods from outside sold at inflated prices. Instead of controlling the floods and arranging for irrigation for winter crops, which would have helped numerous small peasants living from hand to mouth, the central government can only think of draining off the 'surplus water' to feed the rich farmers' fields in the UP and in south India. The income from oil royalty for the state is still a very negligible fraction of the price of oil and petroleum products. The top posts in the forest services are being shunted off to people from outside the state, and there are plans to shift the oldest for-

estry institute in the country from the state to a location in south India. Tea gardens do not pay wages for Sundays to the hapless labourers on the ground that they do not work on Sundays. All that the tea companies have done for the vaunted development of the state serves after all primarily their own interests. Not a *paisa* was given in donation to the colleges and universities of the state until the ULFA started its campaign of extortion, out of hundreds of crores earned as profits. On the other hand, the Saikia government has so far exempted the gardens from taxes to the tune of Rs 130 crore, and that too at a time when all development work has ground to a halt for lack of funds. The state of underdevelopment, aided and abetted by nationalised banks that pump out several times more money than they care to deploy in helping local development, makes self-employment a chimera and the dignity of labour an empty slogan. For thousands of frustrated and unemployed youth the only sources of income are crime and shady businesses of all sorts. The state government seems to be encouraging these trends by promoting daily lotteries which are another name for gambling.

While in the rest of the country extension of railway routes is almost a routine affair, in Assam most big towns are still to be linked to railway lines, or at most are poorly served by the existing connections. Only a small per cent of the railway track is broad gauge. Even the national highways are badly maintained. As for power, with a recent 200 per cent hike in electricity tariff few local industries are left with hope of prosperous growth. The hike was forced apparently by the state government's refusal—under instruction from the centre—to continue an annual subsidy. Now that the World Bank is insisting on a reduction in the share of the states in funds regularly distributed under the Finance Commission's dispensation, the state government is bound to experience unprecedented penury. As it is, last year more than 600 crore out of a total of central grants amounting to 800 and odd crore were kept back as repayment of earlier debts.

No wonder all this strikes most Assamese as flagrant injustice, committed under constitutional banners. And no wonder the ULFA still enjoys widespread grass roots support. Its supposedly depleted ranks are being renewed by batches of fresh recruits. Misra expresses premature satisfaction about the lukewarm public response to the killing of hard-core ULFA cadres at Nitai Pukhuri. With armymen and murderous ULFA renegades milling around, a warmer response would have been suicidal. But the tidal wave of popular participation at the funeral service (*pradaha*) of Francis Barman, an ULFA militant, in the Nagaon district following an 'encounter death', reveals the thinness of Misra's supporting evidence.

Misra maintains a strange silence on the atrocities of the army in its desperate search

for 'the enemy' among the people. Relatives of alleged ULFA cadres are regularly harassed and tortured, and even the infirm and the elderly are not spared. People are being clapped into prison under the TADA on the merest suspicion, indeed sometimes from ulterior motives. The worst part of it is that women are being molested and raped by reckless jawans emboldened by their possession of fire-arms. On August 20 in the No 1 Silpota village of Dibrugarh district armymen gang-raped a farmer's wife and attempted rape on several other women. The next day, under cover of a combing operation, another group of jawans stormed into a tea-garden hospital at Moran and attempted to violate the women patients, all of them from the tea-garden community. Rural doctors and teachers have been mercilessly thrashed for not 'showing proper respect', i.e. for not behaving in a cringing manner. Groups of soldiers indulge in plunder of valuables from ordinary village households, and they have been known to steal hundreds of litres of crude oil from pipe-lines. Last year in the Darrang district army jawans fired on an innocent wedding procession killing two.

This grim situation is a god-sent opportunity to Hiteswar Saikia to spread the tentacles of his peculiarly vicious regime. Anyone who is not with Saikia is suspected to be a terrorist or a sympathiser of terrorism. There have been attacks on a press that refuses to be muzzled. The economy has been laid open for unprecedented loot and plunder by Saikia's cronies. Hundreds of crores have been siphoned off from the state treasury with false bills and fake LOCs. And 'surrendered ULFA' boys, in lieu of their help in nabbing their former comrades, have been allowed to decimate the few remaining forests in the state. Along with these depredations there has been a systematic sickening campaign to win over the elite with various kinds of patronage and villify those who stand aloof with the vilest slanders through the government media. Misra cannot be quite unaware of these pretty goings-on. If this is the method of solving the ULFA problem, the cure may turn out to be worse than the disease. Already there is so much discontent that Saikia has been forced to instigate dangerous inter-ethnic tensions in order to cling to power. In fact, Saikia's rule may help create in this region a fertile ground for unending insurgency and ethnic violence.

This is not to whitewash the mistakes and crimes of the ULFA. Nor does one expect to gloss over their immaturity and lack of political sense. There is a dangerous lumpen element among their recruits and in their psychology. But it needs no extraordinary insight to realise that these youths act out of patriotic motives, and that they represent somehow the suppressed voice of the indigenous people of Assam. Their political ineptitude may partly be traced to the bankruptcy of the parliamentary left, and their cruelty to their victims may be partly explained by the general degeneration of culture against the political and economic background sketched above.

Wholesale and Consumer Prices

EPW Research Foundation

MEASUREMENT of inflation in India is a complex task. Generally three types of price indices depicting variations in the average price level are used to measure inflation rate in any economy, namely, general index of wholesale prices, an average consumer price index and implicit national income deflator. The actual use of any index will of course depend upon the purpose in view. While the general indices of wholesale prices and national income deflators are said to reflect the overall price level in an economy and hence have some universal recognition as such, the consumer price indices cannot claim similar general applicability, say, as between a developing economy and an industrially-advanced economy. While heterogeneity in consumption patterns amongst different classes should be true of advanced industrial economies as much as of less developed economies, it is the vast difference as between the two sets of economies in regard to two specific characteristics that makes for the more intense differentiation amongst consumption classes in the poorer economies such as that of India. These characteristics are: (i) a relatively underdeveloped agriculture absorbing a sizeable proportion of the population (about 67 per cent in India against 2 to 3 per cent in many developed economies) or alternatively the share of the urban population in the total being small (about 25 per cent in India against 75 per cent to 95 per cent in the developed countries); and (ii) the self-employed constituting a dominant part of the labour force (about 60 per cent in rural areas and 45 per cent in urban areas in India as against not more than 25 per cent in developed economies) with casual labour, including agricultural labour, dominating wage employment (wage employment constituting generally 70 to 75 per cent in developed economies as against 35 to 40 per cent in India). In such a vastly differentiated economic and social structure there cannot be a single consumer price index even remotely capable of depicting the cost of living of all classes. In India, therefore, we have evolved three separate consumer price indices—for industrial workers, urban non-manual employees and agricultural labourers. Even these indices, however, do not cover vast segments of rural and urban households outside these groups, and hence they are not amenable to being aggregated into any average consumer price index for the country as a whole or for rural and urban areas separately. Therefore, there have been attempts

to construct CPIs for rural and urban areas in recent years (more of that later).

WHOLESALE PRICES INDEX

For the present, we have official series on index numbers of wholesale prices (WPI, on a weekly basis) as also those on the three sets of CPIs mentioned above computed on a monthly basis. Amongst these, the most commonly used is the general index of wholesale prices. With a view to capturing the evolving structure of the economy, the introduction of new and more sophisticated products, and the changing patterns of trade at the wholesale level, revisions have been effected in the WPI generally at an interval of a decade, though due to delayed availability of the requisite base data for weighting

diagrams, the successive new series have been introduced after the lapse of some years thus: 1952-53 series in January 1957, 1961-62 series in July 1969, 1970-71 series in January 1977 and 1981-82 series in July 1989. A technical committee on statistics of prices and cost of living, on the eve of the 1970-71 revision, recommended that a common base year should be adopted for all indices constructed by the central government. This was implemented around the introduction of the 1970-71 series but could not be adhered to in its entirety, while introducing the 1981-82 series of WPI as for national income purposes the year 1980-81 was considered as more appropriate.

The succeeding series of WPI have expanded the scope and coverage of commodity items and quotations constituting the

TABLE A: NUMBER OF ITEMS, NUMBER OF QUOTATIONS AND WEIGHTAGE OF MAJOR GROUPS/GROUPS IN THE INDEX NUMBER OF WHOLESALE PRICES

Major Groups/Groups	Number of Items			Number of Quotations			Weights		
	1961-62 Series	1970-71 Series	1981-82 Series	1961-62 Series	1970-71 Series	1981-82 Series	1961-62 Series	1970-71 Series	1981-82 Series
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
All commodities	218	360	447	767	1295	2371	100.00	100.000	100.000
I Primary articles	61	80	93	340	411	519	42.60	41.667	32.295
(i) Food articles	31	39	44	229	264	320	29.20	29.799	17.386
(ii) Non-food articles	22	26	28	97	115	132	13.00	10.621	10.081
(iii) Minerals	8	15	21	14	32	67	0.40	1.247	4.828
II Fuel, power, light and lubricants	8	10	20	23	30	73	6.00	8.459	10.663
III Manufactured products	149	270	334	404	854	1779	51.40	49.874	57.042
(i) Food products	19	37	45	61	117	231	12.90	13.322	10.143
(ii) Beverages, tobacco and tobacco products	5	8	7	8	19	39	1.30	2.708	2.149
(iii) Textiles	11	12	27	72	99	120	13.90	11.026	11.545
(iv) Wood and wood products	*	4	2	*	13	14	*	0.174	1.198
(v) Paper and paper products	3	4	11	5	16	74	1.00	0.851	1.988
(vi) Leather and leather products	4	4	3	15	18	26	1.40	0.385	1.018
(vii) Rubber and plastic products	6	7	13	19	42	73	1.00	1.207	1.592
(viii) Chemicals and chemical products	31	67	77	71	182	428	4.20	5.548	7.355
(ix) Non-metallic mineral products	12	21	22	27	63	125	1.50	1.415	2.477
(x) Basic metals, alloys and metal products	26	42	57	47	125	235	6.70	5.974	7.632
(xi) Machinery and machine tools	26	35	44	67	101	266	7.40	5.045	6.268
(xii) Transport equipment and parts		21	22		39	118		1.673	2.705
(xiii) Other miscellaneous manufacturing industries	6	8	4	12	17	30	0.10	0.546	0.972

general index (Table A). The principle of weighted arithmetic mean as the method of calculating the index number has been applied in all the series. However, the current WPI series with base 1981-82 = 100 made a major departure from the earlier series in working out the weighting diagram for various commodities and commodity groups. Weights are always assigned on the basis of the value of wholesale transactions in the economy with the values of transactions consisting of (a) value of marketable surplus in the case of agricultural commodities and value of output in the case of manufactured products, (b) total value of imports, (c) total value of import duties, if any, and (d) total value of excise duties, if applicable. In the case of agricultural commodities, the earlier series used the estimated *marketable* surplus whereas the Working Group which evolved the 1981-82 series (chairman: C Rangarajan) recommended the use of *marketed* surplus, as the aggregate quantity actually transacted in the wholesale markets, which was said to determine the wholesale prices, was considered appropriate to derive the weighting diagram.¹ Partly because of this, and partly because of the decline in the share of agriculture in overall economic activity, the weights of agricultural commodities have dwindled from 40.4 per cent in the 1970-71 series to 27.5 per cent in the 1981-82 series, and those of foodgrains from 12.92 per cent to 7.92 per cent. In the case of the manufacturing sector an improvement in determining weights of items in the new series was made by including for the first time the value of output of the unorganised/unregistered sectors in the value of output of an item. Apart from the weighting diagram, it is perceived that due to more rapid structural changes and the introduction of a series of new industrial products during the 1980s, the 1981-82 index has become considerably outdated.² The government has now appointed a committee to take a fresh look at the WPI series. A similar review is contemplated for the consumer price indices.

COMPARISON WITH NATIONAL INCOME DEFLATOR

The index of wholesale prices and the national income deflators are at times used as alternatives but there are significant compositional and computational differences between them; hence they can hardly represent similar price phenomena. While the wholesale price index is a suitably constructed weighted index of commodities produced and/or transacted at the wholesale level in the country, the national income deflator represents an implicit price index derived by comparing the gross domestic product at current and constant prices. First, the national income data cover all conceivable principal and minor crops and by-

products and industrial commodities the physical quantities of which are valued at various farm-gate and wholesale ex-factory prices, whereas the WPI, though it has expanded in scope and coverage over the years, cannot match the national income data in this respect; the WPI records only chosen price quotations of individual commodities which is also not based on any scientific sampling procedure. Secondly, the WPI captures the weekly rhythm of fluctuations in prices which cannot fully get reflected in the valuation of the annual series of national income. Thirdly, the price variations of intermediate inputs would have differential impact on national income deflators as compared with that on WPI. For instance, a relatively higher rise in raw material prices as compared with the prices of finished products would have a depressing influence on the national income (or value added) deflator, while it would have an accelerating influence on WPI. Fourthly, an important difference in the two sets of price data lies in the fact that the WPI covers only commodities and does not include prices of services whereas the national income data embrace all economic activities including services. Finally, even if we concentrate only on commodity-producing sectors from the national income data, the relative weights (or composition) of agricultural and non-agricultural sectors implied in the national accounts data are significantly different from the relative weights assigned to these sectors in the WPI as may be seen from the data shown in Table B.

Apart from the conceptual and computational differences explained above, a crucial reason for the differences lies in the fact that the weighting diagram in the WPI represents all transactions at the wholesale level in an additive manner, whereas the relative share of say, agricultural and non-agricultural commodities in GDP are based on their value added share, i.e., gross output *minus* inputs. Therefore, it is obvious that the sectors like agriculture with a high value added component would have higher relative share in national income than in WPI.

CONSUMER PRICE INDEX NUMBERS

A consumer price index number is designed to measure changes over a period of time in the level of retail prices of selected goods on which consumers in general or those of a defined group, such as the working class population in a particular city, spend their incomes.³ In India, while the CPI for industrial workers (CPI-IW) and that for agricultural labourers (CPI-AL) are constructed and published by the Labour Bureau in the Ministry of Labour, the CPI for urban non-manual employees (CPI-NME) is published by the Central Statistical Organisation (CSO). Broadly the weighting diagrams for all the series are based on the results of the respective family budget enquiries. Unlike the wholesale price index which is constructed at the all-India level, the consumer price index numbers are initially constructed at the state level (CPI-AL) or for selected industrial (CPI-IW) and urban (CPI-NME) centres and then aggregated to all-India indices as weighted averages of the respective centre-wise or state-wise indices. For each centre (or state), the index is compiled using Laspeyre's formula (base weighted mean of price relatives) first at the sub-group level of consumption items, then at the group level, and finally at the general index level.

CPI FOR INDUSTRIAL WORKERS (CPI-IW)

In the early 1950s, it was perceived that the old series of CPI-IW with base 1944 = 100 for 20 centres and all-India (later arithmetically shifted to 1949 = 100) was based on outdated consumption patterns thrown up by the family budget enquiries conducted long ago which did not reflect the current living conditions of the working classes. Therefore, the first comprehensive family living survey was undertaken at 50 selected industrial centres of the country (32 factory, 10 plantation and 8 mining centres) during August 1958-September 1959. The consumption pattern so estimated for each centre was used as the weighting diagram for the CPI-IW with base 1960 = 100. As per the

TABLE B: RELATIVE WEIGHTS OF AGRICULTURAL AND NON-AGRICULTURAL COMMODITIES

Base Year	Relative Weights in Wholesale Price Index (Per Cent)		Implied Relative Share in Gross Domestic Product (Per Cent)				
	Agricultural Commodities	Non-Agricultural Commodities	Excluding Services		Including Services		
			Agricultural Commodities	Non-Agricultural Producing Sectors	Agricultural Commodities	Non-Agricultural Producing Sectors	
1961-62	33.2	66.8	73.1 (1960-61)	26.9	48.0	17.6	34.4
1970-71	40.4	59.6	71.6	28.4	45.7	18.1	36.2
1981-82	27.5	72.5	58.8 (1980-81)	41.2	34.7	24.3	47.0

ILO recommendation, family income and expenditure surveys were to be conducted at intervals of not more than 10 years. Surveys were conducted in 1971-72 at 60 centres but "the series based on these surveys could not be released due to various administrative reasons".⁴ Thereafter, a comprehensive family living survey was conducted during 1981-82 at 70 selected centres covering seven sectors, namely, factories, mines, plantations, railways, public motor transport undertakings, electricity generating and distributing establishments, and ports and docks, which provided the necessary consumption pattern (weighting diagram) for the revised CPI-IW with base 1982 = 100. In the new series, the number of items covered has been increased significantly in all the centres as compared to the earlier series; the coverage for the all-India index has gone up from about 175 items in the 1960-based series to about 260 items in the new series. In the new series, the weight for ration-shop items is determined on the basis of actual availability of the rationed items in the ration-shops as against the criterion of admissibility adopted in the earlier series, and in the case of owned houses, the house rent index is based on the rent movement of comparable rented houses in the new series as against the rent index kept frozen at 100 in the earlier series. The weighting diagrams at the group levels for the 1982 series *vis-a-vis* 1960 series are presented in Table C.

CPI FOR URBAN NON-MANUAL EMPLOYEES (CPI-NME)

The Central Statistical Organisation (CSO) has been regularly compiling, since the beginning of the 1960s, consumer price index numbers for urban non-manual employees for selected urban centres, as also for all-India, with a view to depicting the changes in the level of average retail prices of goods and services consumed by families deriving the major proportion of their incomes from non-manual occupations in the non-agricultural sector. The CPI-NME was initially constructed with the base 1960 = 100 using the consumption pattern thrown up by the family living survey, designated as Middle Class Family Living Survey, conducted in 1958-59 in each of the 45 selected urban centres covering the above described categories of families chiefly made up of white-collar workers in government, salaried employees of trading, industrial and financial establishments, and traders, professional and other intellectual workers.⁵ Subsequently, with a view to representing the current consumption pattern on a more realistic basis, a fresh family living survey covering the middle class was conducted during 1982-83 in 59 selected urban centres (including the 45 centres covered in the earlier survey). Retail prices, item-wise, are regularly collected from selected markets/outlets patronised by the above categories of the

population and utilised for compiling this index. The percentage share of expenses of the average family on each item of the consumption basket constitutes its weight and all the consumption of goods and services featuring in the budget of the average family are classified into different sub-groups and groups on the basis of the purpose of the expenditure. Sub-group, group and general indices for each of the centres are computed as weighted arithmetic average of the respective constituent indices. All-India indices are compiled as weighted arithmetic average of centre indices with weights proportionate to aggregate estimated expenditure of urban non-manual population represented by the respective centre indices. The centre weights range from the lowest for Shillong (0.22 per cent) to Madras (3.86 per cent), Delhi (6.56 per cent), Calcutta (6.92 per cent) and Bombay (8.40 per cent). The weights for other centres are in the range of 0.32 per cent (Srinagar) and 2.80 per cent (Nagpur). (For details, see any copy of the CSO's Monthly Abstract of Statistics.)

THE CPI FOR AGRICULTURAL LABOURERS (CPI-AL)

Apart from filling a vital gap in rural labour statistics, the consumer price index numbers for agricultural labourers are intended to serve as one of the guiding factors

TABLE C: COMPARATIVE STUDY OF WEIGHTS STRUCTURE OF CONSUMER AND WHOLESALE PRICE INDICES

Commodity Group	CPI Industrial Workers		CPI for Urban Non-Manual Employees (1960=100) ¹	CPI for Agricultural Labourers (July 1960=100)	Wholesale Price Index		
	(1960=100)	(1982=100)			Base (1961-62=100)	Base (1970-71=100)	Base (1981-82=100)
Major Groups							
1 Food	60.92	57.00	47.15	78.12	41.30 ²	43.72 ³	27.53 ³
2 Pan, supari, tobacco and intoxicants	4.79	3.15					
3 Fuel and light	5.77	6.28	4.73	7.96	..	..	..
4 Housing	6.26	8.67	10.79		..	..	..
5 Clothing, bedding and footwear	8.54	8.54	9.66	6.11	..	..	..
6 Miscellaneous	13.72	16.36	26.08	7.81 _(2.0)	..	..	..
7 Total	100.00	100.00	100.00	100.00	100.00	100.00	100.00
Food groups/sub-groups							
1 Cereals	28.62 (47.0)		13.3 (27.9)		12.10 (29.3)	10.74 (24.6)	6.82 (24.8)
2 Pulses	3.67 (5.7)		2.14 (4.5)		2.68 (6.5)	2.79 (6.4)	1.09 (4.0)
3 Meat, fish and eggs	4.09 (6.7)		2.47 (5.2)		2.02 (4.6)	1.93 (4.4)	1.91 (6.9)
4 Milk and milk products	5.61 (9.2)		9.84 (20.9)		6.07 (14.7)	6.54 (15.0)	2.6 (9.4)
5 Condiments and spices	3.27 (5.3)		1.44 (3.1)		1.20 (3.0)	1.09 (2.5)	0.95 (3.5)
6 Vegetables and fruits	4.59 (7.5)		5.84 (12.4)		2.36 (5.7)	6.17 (14.1)	4.16 (15.1)
7 Oils and fats	3.2 (5.3)		2.98 (6.3)		5.37 (13.0)	4.62 (10.6)	2.88 (10.5)
8 Sugar, gur and khandasari	2.65 (4.4)		2.57 (5.5)		6.49 (15.7)	7.24 (16.6)	4.06 (14.7)
9 Others (tea and coffee and others)	5.28 (8.7)		6.74 (14.3)		3.01 (7.3)	2.6 (5.9)	3.06 (11.1)
Total	60.92 (100.0)		47.32 (100.0)		41.30 (100.0)	43.72 (100.0)	27.53 (100.0)

.. Means not available/not relevant

¹ Classification not known

² Represents 'food articles' group weight

³ Consists of food under 'primary articles' and 'food products' under 'manufactured products' diagram for the 1984-85=100 series.

¹ The government has not published the weighting

Figures in brackets indicate percentage share of the sub-group in the food group in the index.

Sources: Deshpande (1985). Also RBI (1989) and RBI (1990).

for fixation as well as revision of the minimum wages of agricultural labour, which is one of the scheduled employments in the Minimum Wages Act, 1948. The all-India CPI-AL, which combines the similar indices for each state into a single indicator, also affords a comparative picture *vis-à-vis* other similar series such as the CPI-IW and CPI-NME.⁶ The current CPI-AL series compiled and published by the Labour Bureau for 15 states or groups of states as well as for all-India on base July 1960-June 1961 = 100 is an amalgam of the weights (consumption pattern) for 1956-57 generated from the Second Agricultural Labour Enquiry conducted during the period from August 1956 to August 1957 and the base period July 1960 to June 1961 that synchronised with the period of the 16th Round of the National Sample Survey (since when the villages from which prices are being collected have been kept fixed). As usual, the average annual expenditure on each item (after imputations) is expressed as a percentage of the expenditure on the commodity group to obtain item weights within a group. Similarly, group weights are derived by working out the percentage expenditure, including group-level imputations, on each group as compared to total consumption expenditure. These provide state-level weighting diagrams. The state group index is worked out by Laspeyres' formula in two stages. In the first stage, the group index is obtained by multiplying the state price relatives of each item by its weight in the group, the weights being the proportion of expenditure in that group as determined by the Second Agricultural Labour Enquiry and the sum of the products of all the selected items in the group divided by the sum of the weights of the items, i.e., 100. In the second stage, the general consumer price index number is determined by multiplying the group index numbers by the weights of the different groups and the sum of the products thus obtained is divided by the sum of the group weights. The all-India index numbers are compiled by weighting the state indices by the respective proportionate estimated expenditure in different states in relation to the total estimated expenditure of all agricultural labour households in the country. Currently, these index numbers are being compiled and published for 15 states or groups of states. The composite weighting diagram so derived at the all-India level is shown in Table C.

WPI COMPARED WITH CPIs

As with the WPI and national income deflators, there are significant structural dissimilarities between the WPI and the CPI relating to weighting diagrams, coverage of commodities, geographical coverage of items, and the nature of price relatives.⁷ First, while WPI covers physical commodi-

ties, CPIs include the cost of services consumed by the respective consumer classes. But again, unlike WPI, CPIs cannot include capital goods (say, heavy machinery and equipment) nor intermediate inputs (raw cotton) directly. Secondly, for WPI, weights are based on the value of marketable or marketed surplus in the agricultural sector and value of output by manufactures in the secondary sector in the country as a whole, whereas for CPI they are based on the working class consumption expenditure as revealed by family budget surveys in selected industrial or urban (or rural) centres. The structural differences are reflected, particularly in the weights assigned to different commodity groups. For instance, the 'food' group carries a weight of 27.5 per cent in WPI (1981-82 series) as against 57 per cent in CPI-IW for industrial workers (1982 series); and within the 'food' group, cereals have a weight of only 12.10 per cent in WPI (1961-62 series) as compared with 28.6 per cent in CPI-IW (1960 series). To put it differently, while the WPI obtains quotations from producing centres and allots weights to item prices from the output angle, the CPI obtains quotations from all the centres spread over various states and allots weights to item prices from the consumption angle. Because of the very heterogeneous nature of consumption patterns amongst different consumer groups, as many as three consumer price indices have been constructed in India. There are significant differences in their yearly trends (Tables 1 and 2). Thirdly, apart from these, CPI price quotations at the retail level include the cumulative effects of transport and handling costs and trade margins at all layers of trade and commerce. Incidentally, while WPI is constructed only at the all-India level, CPIs for industrial workers and urban non-manual employees are available for a large number of centres and that of agricultural labourers state-wise. A detailed study by the Labour Bureau had indicated how the geographical coverage differed widely between the WPI and the CPI both in physical and quantitative terms.⁸

KEY TRENDS

Tables 1 to 9 provide a fairly comprehensive set of various price indices constructed in India. A quick review of the inflation rate in India for 42 years from 1950-51 through 1992-93 suggests interestingly that the average annual rate has remained roughly the same (about 6.5 per cent per annum), whether we measure it by the wholesale price index (6.6 per cent per annum) or by the GDP deflator (6.4 per cent) or by the consumer price index numbers for industrial workers (6.5 per cent). It is also significant that, in

a frequency distribution of inflation rates, it is found that about 30 out of 42 years experienced within single-digit inflation (Table D).

Because of the differing seasonal behaviour of price indices, the inflation rates worked out on point-to-point indices are different from those worked out from annual averages of indices (Tables 1 and 2). Significantly, the crude terms of trade for agricultural commodities, as depicted by the wholesale price index numbers, turn out to be significantly different from those depicted by the CSO's implicit GDP deflators (Table 3). In the 1980s when the inflation rate got gradually accelerated from year-to-year, the manufactured products played an important role, unlike in the 1960s and 1970s, when primary articles generally contributed the highest share to the general price increases (Tables 4, 5 and 6). Nevertheless, sizeable increases in prices took place touching over 15 per cent during each of the years 1990-91 and 1991-92 in a composite index specially constructed by us representing basic consumption items (which have a total weight of 28.9 per cent in the general index) (Table 7).

A common comment on the construction of index numbers in India has been that there exist no representative cost of living indices for the entire rural and urban population at the state and all-India levels. These gaps have been sought to be filled in the recent period by research scholars associated with the Indian Statistical Institute, Delhi Centre, and the Delhi School of Economics in a series of studies in this respect.⁹ Tables 8A and 8B present one set of the results relating to consumption patterns for the rural and urban populations derived by them for 1983. The original study in this regard by Minhas et al (1991) presents similar weighting diagrams for 1970-71.¹⁰ Another study by Tendulkar and Jain (1993) has worked out the annual rates of inflation by commodity

TABLE D: FREQUENCY DISTRIBUTION OF INFLATION RATES IN INDIA

Range of Annual Inflation Rates in Per Cent Per Annum	Inflation Rates in India as Measured by		
	Wholesale Price Index	Consumer Price Index for Industrial Workers	National Income Deflators
	Number of Years		
≥ 20 per cent	2	2	0
≥ 15 and < 20	2	0	6
≥ 10 and < 15	8	9	6
≥ 5 and < 10	14	13	16
< 5	16	18	13
Total	42	42	41
Average annual rate of Increase (Per Cent)	6.6	6.5	6.4

groups separately for rural and urban consumer price indices, for all the years from 1983 to 1988-89. These data suggest significant inter-state disparities in the consumption pattern (Tables 8A and 8B), as also in rates of increases in commodity prices (Tables 9A and 9B). The share of food items in total consumption varied from 55 per cent to 74 per cent in rural areas and from 46 per cent to 64 per cent in urban areas. These data further reveal that the annual compound rates of price increases did not exceed double-digit for any state in the case of rural population, and with only two exceptions, for the urban population. The rates of price increase for all-food were in general lower than those for all-non-food for the rural population whereas the two rates of increase were about the same for the urban population. Significantly, inter-state relative disparity was higher for all-food than for all-non-food for both the rural and urban populations and Tendulkar and Jain [Tendulkar and Jain, 1993, p 276] point out the surprising result that despite procurement and public distribution on government account, the rates of price increases in cereals and cereal products exhibited wide variability across states for both the rural and urban populations (Tables 9A and 9B).

Notes

- 1 For details see (a) Office of the Economic Adviser, Ministry of Industry (1977): *A Note on the Revised Index Numbers of Wholesale Prices in India* (January). See also *Reserve Bank of India Bulletin*, December 1969 (for 1961-62 series) and February 1977 (for 1970-71 series); and (b) RBI (1990): 'New Series of Wholesale Price Index Numbers (Base: 1981-82 = 100)', *Reserve Bank of India Bulletin*, October.
- 2 See Mall, O P (1993): 'Inflation and the Wholesale Price Index', *EPW*, August 28.
- 3 For detailed description of the evolution of the concepts of consumer price indices and cost of living indices, the role played by the International Labour Organisation (ILO) in standardising the concepts and compilation procedures, their recommendations regarding the need to undertake at regular intervals family income and expenditure surveys, etc, the efforts made in India dating back to the first world war to construct consumer price index numbers and the methodology used and the price collection machinery employed for constructing CPIs in India, see Labour Bureau, Government of India (1972): *Working Class Consumer Price Index Numbers—A Monograph*.
- 4 See Labour Bureau (1989): 'Release of New Series of Consumer Price Index Numbers for Industrial Workers on Base: 1960 = 100', *Indian Labour Journal*, January. See also (i) Vijay Kumar (1988): 'Salient Features of the New Series of Consumer

Price Index Numbers for Industrial Workers', *Indian Labour Journal*, November, and (ii) RBI (1989): 'New Series of Consumer Price Index Numbers for Industrial Workers (Base: 1982 = 100)', *Reserve Bank of India Bulletin*, May.

- 5 See CSO (1988): 'Salient Results of Family Living Survey Relating to Urban Non-Manual Employees: 1982-83', CSO's *Monthly Abstract of Statistics*, April, and CSO (1989): 'A Note on Revised Series of Consumer Price Index Numbers for Urban Non-Manual Employees on Base 1984-85 = 100', CSO's *Monthly Abstract of Statistics*, April.
- 6 See Chapter 4: 'Consumer Price Index Numbers for Agricultural Labourers' in Labour Bureau (1972).
- 7 Roy, Mahua (1989): 'Price Trends during the Five-Year Plan Periods', *Reserve Bank of India Occasional Papers*, December 1989.
- 8 See Bhatia, K K (1977): 'A Comparative Study of Wholesale and Consumer Price Index Numbers', *Indian Labour Journal*, July.
- 9 Tendulkar, S D and L R Jain (1993): 'An Analysis of Inter-State and Inter-Community Group, Rural-Urban Consumer Price Indices in India: 1983 to 1988-89', *Journal of Indian School of Political Economy*, April-June.
- 10 Minhas, B S, L R Jain and S D Tendulkar (1991): 'Rural and Urban Cost of Living: 1983 to 1987-88, State-wise and All-India', *Journal of Indian School of Political Economy*, July-September.



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Table 1: Comparison of Trends in Wholesale Price Indices and Consumer Price Indices—Point-to-Point Basis

Year	Wholesale Price Index				Consumer Price Indices												
	All-Commodities Index	Per Cent Change	Food Index	Per Cent Change	Urban Non Manual Employees					Agricultural Labourers							
					Total Index (6)	Per Cent Change (7)	Food Index (8)	Per Cent Change (9)	Total Index (10)	Per Cent Change (11)	Total Index (12)	Per Cent Change (13)	Food Index (14)	Per Cent Change (15)			
(1)	(2)	(3)	(4)	(5)													
Base Year Ended August 1939 = 100																	
1950-51	449.6	-	414.1	-	103	-	-	-	-	-	-	-	-	-	-	-	-
1951-52	378.2	-15.9	339.3	-18.1	98	-	-	-	-	-	-	-	-	-	-	-	-
1952-53	365.0	1.8	362.6	6.9	104	6.1	105	-	-	-	-	-	-	-	-	-	-
Base 1952-53 = 100																	
1953-54	103.1	3.1	104.2	4.2	101	-2.9	101	-3.8	-	-	-	-	-	-	-	-	-
1954-55	90.8	-11.9	80.8	-22.5	96	-6.9	94	-7.0	-	-	-	-	-	-	-	-	-
1955-56	101.4	11.7	99.0	22.5	100	6.4	99	5.3	-	-	-	-	-	-	-	-	-
1956-57	109.3	7.8	110.9	12.0	107	7.0	107	8.1	-	-	-	-	-	-	-	-	-
1957-58	106.1	-2.9	103.4	-6.8	110	2.8	110	2.8	-	-	-	-	-	-	-	-	-
1958-59	112.1	5.7	112.7	9.0	117	6.4	118	7.3	-	-	-	-	-	-	-	-	-
1959-60	118.6	5.8	116.5	3.4	121	3.4	123	4.2	-	-	-	-	-	-	-	-	-
Base 1960-61 = 100																	
1960-61	126.2	6.4	116.9	0.3	124	2.5	123	0.0	101	1.0	-	-	-	-	-	-	-
1961-62	122.9	-2.6	118.4	1.3	127	2.4	125	1.6	-	-	-	-	-	-	-	-	-
1962-63	127.3	3.6	123.5	4.3	130	2.4	129	3.2	-	-	-	-	-	-	-	-	-
Base 1961-62 = 100																	
1962-63	104.9	8.0	105.0	14.3	143	10.0	143	10.9	-	-	-	-	-	-	-	-	-
1963-64	113.3	7.9	120.0	10.0	159	11.2	162	13.3	-	-	-	-	-	-	-	-	-
1964-65	122.3	12.4	150.0	13.6	174	9.4	177	9.3	135	11.9	156	-	166	-	-	-	-
1965-66	137.5	15.6	188.0	25.3	200	14.9	210	18.6	151	4.6	195	25.0	216	30.1	-	-	-
1966-67	158.9	15.6	194.0	3.2	213	6.5	226	7.6	159	1.9	193	-1.0	211	-2.3	-	-	-
1967-68	160.3	0.9	194.0	-4.1	207	-2.8	212	-6.2	161	1.9	178	-7.8	191	-9.5	-	-	-
1968-69	165.1	3.0	186.0	-	207	-	212	-	-	-	-	-	-	-	-	-	-
Base 1960 = 100																	
1968-69	175.7	6.4	200.0	7.5	170	5.3	183	6.0	170	5.6	193	8.4	209	9.4	-	-	-
1969-70	180.6	2.8	200.0	0.0	179	2.8	194	0.5	174	2.4	187	-3.1	200	-43.0	-	-	-
1970-71	180.6	2.8	200.0	0.0	184	2.8	195	0.5	-	-	-	-	-	-	-	-	-
Base 1970-71 = 100																	
1971-72	108.2	8.2	109.8	9.8	194	5.4	205	5.1	184	5.7	200	7.0	215	7.5	-	-	-
1972-73	121.5	12.3	126.8	15.5	216	11.3	236	15.1	199	8.2	229	14.5	251	16.7	-	-	-
1973-74	158.0	30.0	154.9	22.2	275	27.3	305	29.2	238	19.6	297	29.7	330	31.5	-	-	-
1974-75	173.9	10.1	172.2	11.2	321	16.7	359	17.7	277	16.4	373	25.6	418	26.7	-	-	-
1975-76	162.6	-6.5	145.7	-15.4	286	-10.9	296	-17.5	265	4.3	279	-25.2	295	-29.4	-	-	-
1976-77	182.1	12.0	171.2	17.5	312	9.1	332	12.2	285	7.5	311	11.5	334	13.2	-	-	-
1977-78	182.8	0.4	168.3	-1.7	321	2.9	336	1.2	297	4.2	318	2.3	342	2.4	-	-	-
1978-79	191.1	4.5	168.8	0.3	332	3.4	341	1.5	308	3.7	330	-2.5	331	-3.2	-	-	-
1979-80	232.0	21.4	206.9	22.6	373	12.3	385	12.9	343	11.4	364	17.4	394	19.0	-	-	-
1980-81	270.7	16.7	247.3	19.5	420	12.6	437	13.5	385	12.2	419	15.1	458	16.2	-	-	-
1981-82	277.1	2.4	239.0	-3.4	457	8.8	475	8.7	423	9.9	440	5.0	480	4.8	-	-	-
Base 1981-82 = 100																	
1982-83	107.2	7.2	109.6	9.6	502	9.8	522	9.9	462	9.2	488	10.9	533	11.0	-	-	-
1983-84	114.8	7.2	118.8	8.4	558	11.2	583	11.7	505	9.3	514	5.3	560	5.1	-	-	-
1984-85	121.2	6.0	123.4	3.9	586	5.0	600	2.9	540	6.9	517	0.6	558	-0.4	-	-	-
1985-86	127.4	5.1	134.5	9.0	-	-	-	-	584	8.1	-	-	-	-	-	-	-
Base 1984-85 = 100																	
1985-86	134.2	5.1	138.8	6.8	638	8.9	655	9.2	-	-	556	7.5	600	7.5	-	-	-
1986-87	148.5	10.7	158.4	14.1	686	7.5	707	7.9	-	-	573	3.1	713	3.1	-	-	-
1987-88	156.9	5.7	164.8	4.0	753	9.8	779	10.2	129	7.0	658	14.8	795	11.5	-	-	-
1988-89	171.1	9.1	174.1	5.6	818	8.6	-	-	138	-	729	10.8	-	-	-	-	-
1989-90	171.1	9.1	174.1	5.6	-	-	-	-	-	-	-	-	-	-	-	-	-
Base 1982 = 100																	
1989-90	191.8	12.1	203.6	16.9	177	6.6	178	5.3	149	8.0	736	1.0	789	-0.8	-	-	-
1990-91	217.8	13.6	238.0	17.1	201	13.6	207	16.3	169	13.4	858	16.6	931	18.0	-	-	-
1991-92	233.1	7.0	252.3	5.8	229	13.9	241	16.4	192	13.6	1046	21.9	1151	23.6	-	-	-
1992-93	233.1	7.0	252.3	5.8	243	6.1	-	-	205	6.8	1053	0.7	-	-	-	-	-

Source: Reserve Bank of India. Report on Currency and Finance, various issues; Government of India, Economic Survey, various issues; Indian Labour Journal, various issues.

Table 2: Comparison of Trends in Wholesale Price Indices and Consumer Price Indices—Annual Average Basis

Year (1)	Wholesale Price Index				Consumer Price Indices										Agricultural Labours*		
	All Commodities Index (2)	Per Cent Change (3)	Food Index (4)	Per Cent Change (5)	Industrial Workers					Urban Non-Manual Employees					Food Index (14)	Per Cent Change (15)	
					Total Index (6)	Per Cent Change (7)	Food Index (8)	Per Cent Change (9)	Total Index (10)	Per Cent Change (11)	Total Index (12)	Per Cent Change (13)					
1950-51	409.7		416.4		101		101		Base 1949 = 100								
1951-52	434.6	6.1	398.6	-4.3	105	3.4	104	3.0									
1952-53	380.6	-12.4	357.8	-10.2	104	0.0	102	-1.9									
1953-54	101.2	1.2	100.1	0.1	106	1.9	109	6.9									
1954-55	89.6	-11.5	82.1	-18.0	99	-6.6	101	-7.3									
1955-56	92.5	3.2	86.6	5.5	96	-3.0	92	-8.9									
1956-57	105.3	13.8	102.3	18.1	107	11.5	105	14.1									
1957-58	108.4	2.9	106.4	4.0	112	4.7	112	6.7									
1958-59	112.9	4.2	115.2	8.3	118	5.4	118	5.4									
1959-60	117.1	3.7	119.0	3.3	123	4.2	125	5.9									
1960-61	124.9	6.7	120.0	0.8	124	0.8	126	0.8									
1961-62	125.1	0.2	120.1	0.1	127	2.4	126	0.0									
1961-62	100.0		100.0		104		108		Base 1960 = 100								
1962-63	103.8	3.8	105.0	5.0	108	3.8	113	3.7	104	0.4							
1963-64	110.2	6.2	113.9	8.5	113	4.6	119	5.3	108	0.4							
1964-65	122.3	11.0	133.1	16.9	129	14.2	140	17.6	113	4.6							
1965-66	131.6	7.6	145.0	8.9	139	7.8	151	7.9	124	9.7	143		148	14.2			
1966-67	149.9	13.9	171.0	17.9	157	12.9	171	13.2	132	10.6	190	10.5	169	23.7			
1967-68	167.3	11.6	208.0	21.6	175	11.5	197	15.2	146	8.9	206	20.3	209	9.1			
1968-69	165.4	-1.1	197.0	-5.3	174	-0.6	192	-2.5	159	8.9	206	8.4	228	20.1			
1969-70	171.6	3.7	197.0	0.0	177	1.7	193	0.5	161	1.3	185	-10.2	201	-11.8			
1970-71	181.1	5.5	204.0	3.6	186	5.1	201	4.1	167	3.7	193	4.3	210	4.5			
1971-72	105.6	5.6	106.3	6.3	192	3.2	205	2.0	174	4.2	192	-0.5	206	-1.9			
1972-73	116.2	10.0	123.0	15.7	207	7.5	223	8.8	180	2.0	200	4.2	215	4.4			
1973-74	139.7	20.2	147.5	19.9	250	20.8	279	25.1	192	6.7	225	12.5	246	14.4			
1974-75	174.9	25.2	176.6	19.7	317	26.8	358	28.3	221	15.1	283	25.8	313	27.2			
1975-76	173.0	-1.1	169.3	-4.1	313	-1.3	342	-4.5	270	22.2	368	30.0	413	31.9			
1976-77	176.6	2.1	165.5	-2.2	301	-3.8	317	-7.3	277	2.6	317	-13.9	345	-16.5			
1977-78	185.8	5.2	177.1	7.0	324	7.6	345	8.8	277	0.0	302	-4.7	324	-6.1			
1978-79	185.8	0.0	167.4	-5.5	331	2.2	346	0.6	296	6.9	323	7.0	349	7.7			
1979-80	217.6	17.1	195.6	16.8	360	8.8	373	7.5	306	3.4	317	-1.9	340	-2.6			
1980-81	256.2	17.7	239.2	22.3	401	11.4	419	12.3	330	7.8	360	13.6	390	14.7			
1981-82	281.3	9.8	254.8	6.5	451	12.5	476	13.6	369	11.8	409	13.6	448	14.9			
1982-83	104.9	4.9	106.5	6.1	486	7.5	508	6.7	413	11.9	448	9.5	492	9.8			
1983-84	112.8	7.5	119.6	12.7	547	12.6	581	14.4	446	8.0	481	7.4	527	7.1			
1984-85	120.1	6.5	125.2	4.7	582	6.4	607	4.5	492	10.3	522	8.5	573	8.7			
1985-86	125.4	4.4	127.9	2.2	620	6.5	638	5.1	532	8.1	525	0.6	569	-0.7			
1986-87	132.7	5.8	140.9	10.2	674	8.7	700	9.7	107	7.0	555	5.7	600	5.4			
1987-88	143.6	8.2	153.5	8.9	736	9.2	767	9.6	115	7.5	578	4.1	623	3.8			
1988-89	154.3	7.5	166.3	8.3	786	6.8	820	6.9	126	9.6	650	12.5	706	13.3			
1989-90	165.7	7.4	174.1	4.7	173	0.0	177	0.0	136	7.9	724	11.4	791	12.0			
1990-91	182.7	10.3	193.6	11.2	193	11.6	199	12.4	145	6.6	752	3.9	814	2.9			
1991-92	207.8	13.7	228.3	17.9	219	13.5	230	15.6	161	11.0	830	10.4	900	10.6			
1992-93	228.6	10.0	253.7	11.1	240	9.9			183	13.7	1007	21.3	1106	22.9			
									202	10.4	1076	12.3					

Notes: (..) not available. * Average for agricultural year July-June.

Source: See Table 1.

**Table 3: Wholesale Price Index for Agricultural and Non-Agricultural Commodities
and CSO's National Income Deflators**

Year	Wholesale Price Index for End March			Wholesale Price Index Numbers (Annual Averages)			CSO's Implicit National Income Deflators at 1980-81 Prices			
	Agricultural Commodities	Non-Agricultural Commodities	(2) as Per Cent of (3)	Agricultural Commodities	Non-Agricultural Commodities	(5) as Per Cent of (6)	Agriculture	Industry	GDP	(8) as Per Cent of (9)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
Base August 1939 = 100										
1950-51	..	..	..	455.6	370.8	120.6	22.5	19.8	20.9	..
1951-52	..	..	..	469.6	410.3	114.5	22.9	21.1	21.6	(3.4)
1952-53	..	..	..	386.9	376.2	102.8	21.6	19.7	20.7	(-4.2)
Base 1952-53 = 100 [Weights : 46.1/53.9]*										
1953-54	106.0	100.6	105.3	105.8	103.6	102.1	22.0	20.3	21.3	(2.9)
1954-55	102.0	81.2	125.6	94.3	100.1	94.2	17.9	19.8	19.2	(-9.9)
1955-56	96.0	101.9	94.2	88.0	96.3	91.4	17.6	19.3	22.7	(18.2)
1956-57	106.0	104.3	101.6	104.5	106.0	98.6	21.2	21.0	26.4	(16.3)
1957-58	102.0	109.6	93.1	107.4	109.3	98.3	21.9	21.8	26.3	(-0.4)
1958-59	113.0	111.3	101.5	114.0	112.0	101.8	22.9	22.2	27.7	(5.3)
1959-60	117.0	120.2	97.3	116.5	117.6	99.1	23.3	23.2	27.9	(0.7)
1960-61	126.0	128.8	97.8	123.8	125.8	98.4	22.7	25.1	29.8	(6.8)
1961-62	119.0	126.2	94.3	122.9	127.0	96.8	23.5	25.4	29.8	(0.0)
Base 1961-62 = 100 [Weights : 33.2/66.8]*										
1962-63	100.0	107.3	93.2	102.3	104.5	97.9	24.5	26.3	32.2	(8.1)
1963-64	115.0	112.5	102.2	108.4	111.1	97.6	28.5	27.3	34.2	(6.2)
1964-65	131.0	118.0	111.0	130.9	118.0	110.9	31.7	28.5	39.7	(16.1)
1965-66	148.0	132.3	111.9	141.7	126.0	111.9	36.3	30.1	33.4	(-15.9)
1966-67	182.0	147.4	123.5	166.6	141.6	117.7	43.3	32.7	37.6	(12.6)
1967-68	173.0	154.0	112.3	188.2	156.9	118.9	46.6	35.0	40.9	(8.8)
1968-69	182.0	156.7	116.1	179.4	158.4	113.3	47.8	36.2	42.0	(2.7)
1969-70	201.0	163.1	123.2	194.8	160.1	121.7	48.9	38.1	43.3	(3.1)
1970-71	195.0	173.4	112.5	201.4	171.0	117.8	46.8	40.7	43.9	(1.4)
Base 1970-71 = 100 [Weights : 40.4/59.6]*										
1971-72	99.4	114.2	87.0	100.4	109.1	92.0	48.9	43.7	46.3	(5.5)
1972-73	118.8	123.3	95.4	110.3	120.2	91.8	56.9	46.5	51.0	(10.2)
1973-74	152.1	162.0	93.9	139.2	140.0	99.4	69.4	52.9	59.8	(17.3)
1974-75	164.4	180.3	91.2	169.9	178.3	95.3	77.8	65.1	69.6	(16.4)
1975-76	139.6	178.2	78.3	157.3	183.7	85.6	67.1	67.5	67.8	(-2.6)
1976-77	169.2	190.8	88.7	158.5	188.9	83.9	72.6	70.4	72.0	(6.2)
1977-78	170.2	191.2	89.0	174.8	193.3	90.4	76.8	74.5	76.5	(6.3)
1978-79	171.8	204.2	84.1	171.9	195.2	88.1	76.6	77.0	77.9	(1.8)
1979-80	192.7	258.7	74.5	188.7	237.2	79.6	90.5	89.4	89.7	(15.1)
1980-81	220.6	304.7	72.4	210.5	287.2	73.3	100.0	100.0	100.0	(11.5)
1981-82	234.5	306.0	76.6	236.5	311.7	75.9	105.7	111.6	110.3	(10.3)
Base 1981-82 = 100 [Weights : 27.5/72.5]*										
1982-83	111.5	105.6	105.6	107.3	104.0	103.2	113.4	121.0	119.0	(7.9)
1983-84	121.8	112.3	108.5	121.4	109.5	110.9	123.2	130.1	128.9	(8.3)
1984-85	126.7	119.9	105.7	129.2	116.7	110.7	131.1	140.0	138.6	(7.5)
1985-86	133.0	125.7	105.8	129.1	124.0	104.1	140.3	152.3	149.3	(7.7)
1986-87	141.8	131.3	108.0	142.8	128.9	110.8	151.9	159.0	159.3	(6.7)
1987-88	167.6	141.3	118.6	161.8	136.7	118.4	169.5	170.0	173.2	(8.7)
1988-89	167.4	152.9	109.5	170.9	148.0	115.5	179.6	184.4	186.6	(7.7)
1989-90	176.6	169.0	104.5	174.4	162.4	107.4	195.3	200.2	201.5	(8.0)
1990-91	211.0	184.5	114.4	198.3	176.8	112.2	223.7	205.9	222.6	(10.5)
1991-92	245.1	207.5	118.1	236.8	196.8	120.3	266.5	228.4	245.0	(10.1)
1992-93	252.3	225.8	111.7	255.3	218.5	116.8	..	..	..	..

Note: Figures within round brackets represent percentage variations for the previous year.

* Weights for agricultural and non-agricultural commodities, respectively.

Source: See Table 1 for WPI. For national income deflators, see CSO: *National Accounts Statistics* (various issues).

Table 4: Index Numbers of Wholesale Prices—(Commodity Groups and Sub-Groups)—Point-to-Point Basis
(Base 1981-82=100)

Weight	(1)	(2)	End-March Index Numbers												Percentage Change over Previous Year											
			1982-83	1983-84	1984-85	1985-86	1986-87	1987-88	1988-89	1989-90	1990-91	1991-92	1992-93	1993-94	1982-83	1983-84	1984-85	1985-86	1986-87	1987-88	1988-89	1989-90	1990-91	1991-92	1992-93	1993-94
I All commodities		100.000	107.2	114.9	121.8	127.7	134.2	148.5	156.9	171.1	191.8	217.8	233.1	7.2	7.2	6.0	4.8	5.1	10.7	5.7	9.1	12.1	13.6	7.0		
II Primary articles		32.295	109.5	119.4	123.3	128.7	135.8	157.1	156.8	166.9	195.5	225.4	232.2	9.5	9.0	3.3	4.4	5.5	15.7	-0.2	6.4	17.1	15.3	3.0		
1 Food articles		17.366	116.6	124.4	129.7	136.5	144.0	167.6	173.6	177.3	210.8	234.8	268.5	16.6	6.7	4.3	5.2	5.5	16.4	3.6	2.1	18.9	20.9	5.4		
(i) Foodgrains		7.917	118.4	115.3	118.2	128.8	129.8	151.2	165.5	159.8	196.1	243.2	238.5	18.4	-2.6	2.5	9.0	0.8	16.5	9.5	-3.4	22.7	24.0	-1.9		
(a) Cereals		6.824	122.4	115.1	115.9	128.0	129.6	148.3	161.9	151.9	190.4	241.6	235.0	22.4	-6.0	0.7	10.4	1.3	14.4	9.2	6.2	25.3	26.9	-2.7		
(b) Pulses		1.093	93.2	116.9	132.7	133.8	130.7	169.1	187.9	209.0	231.6	253.4	260.2	-6.8	25.4	13.5	0.8	-2.3	29.3	11.1	11.2	10.8	9.4	2.7		
(ii) Vegetables		1.291	109.8	116.3	128.5	133.8	130.7	169.1	187.9	209.0	231.6	253.4	260.2	-6.8	25.4	13.5	0.8	-2.3	29.3	11.1	11.2	10.8	9.4	2.7		
(iii) Fruits		2.798	117.1	135.9	160.7	131.3	163.3	211.0	171.8	167.7	209.7	260.2	279.8	17.1	16.1	18.2	-18.3	24.4	29.2	-18.6	-2.4	25.0	24.1	7.5		
(iv) Milk		1.961	111.2	124.7	132.1	140.9	151.3	167.0	193.5	202.2	220.1	250.2	274.3	11.2	12.1	5.9	6.7	7.4	10.4	15.9	4.5	8.9	13.7	9.6		
(v) Eggs, fish and meat		1.783	117.5	117.6	133.1	150.2	154.6	163.8	170.7	181.4	200.4	233.1	272.9	17.5	0.1	13.2	12.8	2.9	6.0	4.2	6.3	10.5	16.3	17.1		
(vi) Condiments and spices		0.947	101.9	150.0	156.4	152.5	175.7	250.0	228.5	240.9	318.6	450.2	463.5	1.9	47.2	4.3	-2.5	15.2	42.3	-8.6	5.4	32.3	41.3	3.0		
(vii) Other food articles		0.689	140.6	178.3	166.5	134.4	159.3	157.5	214.1	269.9	264.6	251.5	321.6	40.6	26.7	-6.6	-19.3	18.5	-1.1	35.9	26.1	-2.0	-5.0	27.9		
2 Non-food articles		10.081	101.6	118.0	120.6	125.5	136.3	167.4	155.6	176.4	210.5	227.6	224.4	1.6	16.1	2.2	4.1	10.2	21.0	-7.0	13.4	19.3	8.1	-1.4		
(i) Fibres		1.791	100.1	122.9	140.8	90.7	114.4	150.5	168.6	161.9	201.5	220.5	206.4	0.1	22.8	14.6	-35.6	26.1	31.6	12.0	-4.0	24.5	14.4	-10.5		
(ii) Oilseeds		3.861	94.6	115.5	108.9	110.1	139.1	171.1	131.3	167.3	211.8	221.7	202.4	-5.4	22.1	-5.7	1.1	26.3	23.0	-23.3	27.4	26.6	4.7	-8.7		
(iii) Other non-food articles		4.429	108.4	118.3	122.6	153.1	147.3	170.9	171.5	190.3	213.1	231.6	250.8	8.4	9.1	3.6	24.9	-3.8	16.0	0.4	11.0	12.0	8.7	8.3		
3 Minerals		4.828	100.2	104.2	106.0	107.1	100.6	98.4	98.8	109.5	109.0	114.7	117.9	0.2	4.0	1.7	1.0	-6.1	-2.2	0.4	10.8	-0.5	5.2	2.8		
(i) Metallic minerals		0.231	117.6	124.3	127.3	143.5	154.4	157.8	159.1	164.8	164.8	198.0	247.0	17.6	5.7	2.4	12.7	7.6	2.2	0.8	3.6	0.0	20.1	24.7		
(ii) Other minerals		0.323	93.8	105.2	129.9	135.1	143.3	158.3	188.1	196.6	194.3	231.3	218.6	-6.2	12.2	23.5	4.0	6.1	10.5	18.8	4.5	-1.2	19.0	-5.5		
(iii) Petroleum crude and natural gas		4.274	99.7	103.0	103.0	103.0	94.5	90.7	88.8	99.9	99.5	101.4	103.3	-0.3	3.3	0.0	0.0	-8.3	-4.0	-2.1	12.5	-0.4	1.9	1.9		
III Fuel, power, light and lubricants		10.663	109.8	116.0	122.5	137.3	140.3	147.7	155.2	164.9	188.6	213.5	245.9	9.8	5.6	5.6	12.1	2.2	5.3	5.1	6.3	14.4	13.2	15.2		
(i) Coal mining		1.256	120.0	154.5	155.1	174.6	174.5	205.0	231.6	232.6	232.7	296.5	334.2	20.0	28.8	0.4	12.6	-0.1	18.0	12.5	0.4	0.0	27.4	12.7		
(ii) Mineral oils		6.666	105.5	106.1	115.0	125.8	125.0	127.9	129.3	141.1	170.1	185.8	220.8	5.5	0.6	8.4	9.6	-0.6	2.3	1.1	9.1	20.6	9.2	18.8		
(iii) Electricity		2.741	115.7	122.4	125.7	148.3	161.9	169.0	183.0	191.6	213.4	242.7	266.5	15.7	5.8	2.7	18.0	9.2	4.4	8.3	4.7	11.4	13.7	9.8		
IV Manufactured products		57.042	105.4	112.1	120.6	125.5	132.1	143.9	157.2	174.7	190.3	214.3	231.2	5.4	6.4	7.6	4.1	5.3	8.9	9.2	11.1	8.9	12.6	7.9		
1 Food products		10.143	96.7	109.6	111.8	118.3	129.9	141.5	149.4	168.6	190.8	210.2	224.4	-3.3	13.3	2.0	5.8	9.8	8.9	5.6	12.9	13.2	10.2	6.8		
(i) Dairy products		0.642	101.3	113.5	128.4	126.5	142.6	157.3	179.9	184.4	200.6	260.7	252.5	1.3	12.0	13.1	-1.5	12.7	10.7	13.9	2.5	8.8	30.0	-3.1		
(ii) Grain mill products		1.530	117.7	129.2	111.0	117.3	129.5	136.9	167.6	175.2	197.9	236.9	244.8	17.7	9.8	-14.1	5.7	10.4	5.7	22.4	4.5	13.0	19.7	3.3		
(iii) Bakery products		0.242	109.2	114.8	111.9	124.3	133.5	143.6	156.4	157.1	176.3	227.7	232.5	9.2	5.1	-2.5	11.1	7.4	7.6	8.9	0.4	12.2	29.2	2.1		
(iv) Sugar, khandasari and gur		4.059	78.2	92.7	101.2	113.5	107.9	115.1	130.2	147.2	147.3	155.4	198.8	-21.8	18.5	9.2	12.2	-5.0	6.7	13.1	13.1	0.1	5.5	27.9		
(v) Manufacture of common salt		0.035	94.7	98.1	113.0	113.9	121.6	108.2	132.6	157.5	176.1	220.2	231.7	-5.3	3.6	15.2	0.8	6.8	-11.0	22.6	18.8	11.8	25.0	5.2		
(vi) Edible oils		2.445	106.7	121.1	119.4	121.5	155.9	175.0	162.0	189.8	251.8	256.7	238.6	6.7	13.5	-1.4	1.8	28.3	12.3	-7.4	17.2	32.7	1.9	-7.1		
(vi) Tea and coffee processing		0.236	115.5	132.1	155.4	152.9	168.2	165.9	167.8	237.0	291.3	305.2	302.1	15.5	14.4	17.6	-1.6	10.0	-1.4	1.1	41.2	22.7	4.8	-1.0		
2 Beverages, tobacco and tobacco products		2.149	104.4	107.4	112.0	131.7	142.3	159.4	184.9	222.6	246.6	284.8	296.5	4.4	2.9	4.3	17.6	8.0	12.0	16.0	20.4	10.8	15.5	4.1		
(i) Soft drinks		0.066	110.3	109.0	132.1	138.4	188.8	192.4	203.4	206.7	256.4	287.1	313.7	10.3	-1.2	21.2	4.8	36.4	1.9	5.7	1.6	24.0	12.0	9.3		
(ii) Manufacture of bidi and cigarette		1.925	104.3	107.5	111.6	132.2	141.7	159.3	187.1	228.1	252.2	293.3	304.7	4.3	3.1	3.8	18.5	7.2	12.4	17.5	21.9	10.6	16.3	3.9		
3 Textiles		11.545	107.8	113.2	123.1	115.1	120.3	134.7	144.2	168.8	177.7	197.7	208.5	7.8	5.0	8.7	-6.5	4.5	12.0	7.1	17.1	5.3	11.3	5.5		
(i) Cotton textiles		6.093	107.5	109.9	114.5	115.2	119.2	135.0	146.1	170.4	181.5	210.5	222.1	7.5	2.2	4.2	0.6	3.5	13.3	8.2	16.6	6.5	16.0	5.5		
(a) Cotton cloth mill		3.159	109.8	111.6	114.2	120.6	121.7	126.3	134.7	153.3	167.9	197.3	205.7	9.8	1.6	2.3	5.6	0.9	3.8	6.7	13.8	9.5	17.5	4.3		

Table 4: Index Numbers of Wholesale Prices (Commodity Groups and Sub-Groups)—Point-to-Point Basis (Continued)
(Base 1981-82=100)

Weight	(2)	(1)	Percentage Change over Previous Year																							
			End-March Index Numbers																							
			1982-83	1983-84	1984-85	1985-86	1986-87	1987-88	1988-89	1989-90	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04		
			(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)	(18)	(19)	(20)	(21)	(22)	(23)	(24)		
(b) Cotton cloth powerloom	0.906	103.9	105.6	109.3	107.3	107.1	118.2	142.2	176.1	193.5	196.9	249.2	3.9	1.6	3.5	-1.8	-0.2	10.4	20.3	23.8	9.9	1.8	26.6			
(c) Cotton cloth handloom	0.740	109.4	114.6	118.6	121.0	132.0	136.5	156.0	201.6	201.6	216.6	216.6	9.4	4.8	3.5	2.0	9.1	3.4	14.3	29.2	0.0	7.4	0.0			
(d) Khadi cloth	0.056	116.5	116.5	148.4	148.4	148.4	148.4	148.4	148.4	148.4	148.9	148.9	16.5	0.0	0.0	27.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0			
(e) Jute textiles	0.689	120.7	190.7	232.9	132.5	148.2	171.2	208.9	284.4	299.6	282.6	281.5	20.7	58.0	22.1	-43.1	11.8	15.5	22.0	36.1	5.3	-5.7	-0.4			
4 Wood and wood products	1.198	115.0	124.1	125.4	147.8	153.2	155.8	156.5	158.8	159.3	211.0	345.1	15.0	7.9	1.0	17.9	3.7	1.7	0.4	1.5	0.3	32.5	63.6			
5 Paper and paper products	1.988	112.2	120.8	137.9	150.7	160.0	176.9	192.4	212.6	235.3	300.5	324.9	12.2	7.7	14.2	9.3	6.2	10.6	8.8	10.5	10.7	27.7	8.1			
6 Leather and leather products	1.018	103.3	111.8	118.0	132.6	137.7	159.9	171.5	200.4	230.3	228.4	234.5	3.3	8.2	5.5	12.4	3.8	16.1	7.3	16.9	14.9	-0.8	2.7			
7 Rubber and plastic products	1.592	106.7	112.4	121.3	126.6	137.3	155.8	156.4	162.8	165.6	182.3	188.5	6.7	5.3	7.9	4.4	8.5	13.5	0.4	4.1	1.7	10.1	3.4			
8 Chemical and chemical products	7.355	105.8	109.2	114.2	121.4	127.5	133.1	136.9	143.5	154.0	177.8	200.5	5.8	3.2	4.6	6.3	5.0	4.5	2.7	4.8	7.3	15.5	12.8			
(i) Inorganic chemicals	0.764	107.6	110.2	118.5	131.5	138.5	144.2	161.5	175.1	203.0	231.1	255.7	7.6	2.5	7.4	11.0	5.3	4.1	12.0	8.5	15.9	13.8	10.6			
(ii) Organic chemicals	0.452	106.2	101.4	98.7	108.1	104.8	106.1	108.3	109.9	114.7	126.8	127.9	6.2	-4.5	-2.7	9.5	-3.1	1.2	2.1	1.5	4.4	10.5	0.9			
(iii) Fertilisers	1.748	104.9	97.8	98.0	106.7	107.9	104.6	99.1	99.1	99.1	127.6	181.9	4.9	-6.8	0.2	8.9	1.1	-3.1	-5.3	0.0	0.0	28.8	42.6			
(iv) Drugs and medicines	1.065	106.6	110.0	112.7	119.9	127.5	131.2	138.4	147.5	153.1	165.8	173.6	6.6	3.2	2.5	6.4	6.3	2.9	5.5	6.6	3.8	8.3	4.7			
(v) Soaps and detergents	0.880	107.7	122.1	134.8	138.3	147.7	155.8	152.9	156.2	165.0	194.1	203.3	7.7	13.3	10.4	2.6	6.8	5.5	-9.9	2.2	5.6	17.6	4.7			
9 Non-metallic mineral products	2.477	119.6	133.8	143.9	140.0	145.8	145.9	158.1	177.3	196.7	229.7	236.7	19.6	11.9	7.5	-2.7	4.1	0.1	8.4	12.1	10.9	16.8	3.0			
(i) Cement	0.860	130.2	148.0	171.5	140.4	138.8	127.0	141.2	162.2	185.0	217.1	209.4	30.2	13.7	15.9	-18.1	-1.1	-8.5	11.2	14.9	14.1	17.4	-3.5			
13 Basic metals, alloys and metal products	7.632	106.9	114.3	133.2	140.2	143.7	160.9	192.1	209.8	228.1	241.7	264.9	6.9	6.9	16.5	5.3	2.5	12.0	19.3	9.2	8.7	6.0	9.6			
(i) Basic metals, and alloys	4.784	106.8	114.2	136.5	145.2	145.6	164.1	185.3	201.0	214.5	226.2	250.2	6.8	6.9	19.5	6.4	0.3	12.7	12.9	8.5	6.7	5.5	10.6			
(a) Iron and steel	2.441	103.4	108.0	129.1	139.8	138.2	158.0	174.4	195.0	206.7	216.0	242.3	3.4	4.4	19.5	8.3	-1.1	14.3	10.4	11.8	6.0	4.5	12.2			
(b) Ferro alloys	0.196	100.2	109.4	118.6	132.9	139.0	161.6	201.0	210.0	223.0	234.6	257.4	0.2	9.2	8.4	12.1	4.6	16.3	24.4	4.5	6.2	5.2	9.7			
(ii) Non-ferrous metals	1.025	104.8	114.2	122.6	129.2	144.7	170.6	234.3	244.0	263.5	281.2	300.4	4.8	9.0	7.4	5.4	12.0	17.9	37.3	4.1	8.0	6.7	6.8			
(a) Aluminium	0.454	101.1	104.8	117.1	123.4	145.1	NA	209.1	214.6	226.8	231.2	250.8	1.1	3.7	11.7	5.4	17.6	NA	NA	2.6	5.7	1.9	8.5			
(iii) Metal products	1.823	108.5	115.1	130.6	133.4	138.4	147.2	186.2	213.5	243.7	260.1	283.5	8.5	6.1	13.5	2.1	3.7	6.4	26.5	14.7	14.1	6.7	9.0			
11 Machinery and machine tools	6.268	103.8	107.7	115.1	123.9	128.8	138.5	158.2	171.0	188.8	222.5	232.8	3.8	3.8	6.9	7.6	4.0	7.5	14.2	8.1	10.4	17.8	4.6			
(i) Non-electrical machinery	3.277	106.1	109.9	118.2	127.4	132.5	140.5	162.8	179.7	199.8	237.0	244.5	6.1	3.6	7.6	7.8	4.0	6.0	15.9	10.4	11.2	18.6	3.2			
(ii) Electrical machinery	2.991	101.2	105.3	111.7	120.0	124.7	136.4	153.1	161.4	176.7	206.7	219.9	1.2	4.1	6.1	7.4	3.9	9.4	12.2	5.4	9.5	17.0	6.4			
12 Transport equipment and parts	2.705	104.7	105.8	116.6	127.0	131.7	140.4	157.5	174.2	190.8	212.1	217.4	4.7	1.1	10.2	8.9	3.7	6.6	12.2	10.6	9.5	11.2	2.5			
13 Other miscellaneous manufacturing industries	0.972	102.2	101.6	97.8	104.1	109.7	110.5	116.4	117.4	123.0	127.7	141.5	2.2	-0.6	-3.7	6.4	5.4	0.7	5.3	0.9	4.8	3.8	10.8			

Source: Reserve Bank of India, Report on Currency and Finance, various issues; and Government of India, Economic Survey, various issues.

**Table 5: Index Numbers of Wholesale Prices (Commodity Groups and Sub-Groups)—Annual Average Basis
(Base 1981-82=100)**

Groups/ Sub-groups	Weight	Annual Average Index Numbers												Percentage Change over Previous Year											
		1982- 83	1983- 84	1984- 85	1985- 86	1986- 87	1987- 88	1988- 89	1989- 90	1990- 91	1991- 92	1992- 93	1992- 93	1982- 83	1983- 84	1984- 85	1985- 86	1986- 87	1987- 88	1988- 89	1989- 90	1990- 91	1991- 92	1992- 93	
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)	(18)	(19)	(20)	(21)	(22)	(23)	(24)	(25)	
I All commodities	100.00	104.9	112.9	120.1	125.4	132.7	143.6	154.3	165.7	182.7	207.8	228.6	248.6	4.9	7.6	6.4	4.5	5.8	8.2	7.5	7.4	10.3	13.7	10.0	
II Primary articles	32.295	106.7	118.2	125.5	125.7	137.2	152.6	160.1	163.6	184.9	218.3	234.5	270.9	6.7	10.8	6.2	0.1	9.1	11.3	4.9	2.2	13.0	18.1	7.4	
A Food articles	17.386	111.1	126.5	131.8	134.1	147.8	161.1	177.1	179.3	200.6	241.1	270.9	311.1	11.1	13.9	4.1	1.8	10.2	9.0	9.9	1.3	11.9	20.2	12.4	
(i) Foodgrains	7.917	109.1	119.4	117.1	124.5	129.4	141.3	161.8	165.4	179.2	216.4	242.3	291.9	9.1	9.4	-1.9	6.3	4.0	9.2	14.5	2.2	8.3	20.8	12.0	
(a) Cereals	6.824	111.5	120.9	114.9	122.4	129.6	139.4	155.7	159.0	171.5	211.3	239.9	289.9	11.5	8.4	-5.0	6.5	5.9	7.5	11.7	2.1	7.9	23.2	13.5	
(b) Pulses	1.093	94.2	110.0	130.8	138.0	128.3	153.4	199.7	205.7	227.5	248.5	257.4	285.8	-5.8	16.7	18.9	5.5	-7.0	19.6	30.2	3.0	10.6	9.2	3.6	
(ii) Vegetables	1.291	116.6	156.3	123.8	134.4	202.0	177.5	162.7	181.0	234.6	259.9	263.6	266.6	16.6	34.0	-20.8	8.6	50.3	-12.1	-8.3	11.2	29.6	10.8	1.4	
(iii) Fruits	2.798	107.7	127.3	155.2	135.7	154.4	181.5	195.4	165.6	190.0	249.6	277.0	311.1	7.7	18.2	21.9	-12.5	13.7	17.6	7.6	-15.2	14.7	31.4	11.0	
(iv) Milk	1.961	110.6	121.7	132.6	140.4	147.4	162.3	184.8	201.1	209.2	236.4	264.7	301.1	10.6	10.0	9.0	5.9	4.9	10.1	13.8	8.8	4.0	13.0	12.0	
(v) Eggs, fish and meat	1.783	114.1	120.3	127.1	140.4	150.3	158.1	170.7	178.3	194.5	222.8	259.3	311.1	14.1	5.4	5.7	10.5	7.0	5.2	8.0	4.5	9.1	14.6	16.4	
(vi) Condiments and spices	0.947	120.4	135.4	159.5	165.6	193.2	237.6	262.1	226.3	284.6	417.7	514.3	601.1	20.4	12.5	17.8	3.9	16.7	23.0	10.3	-13.7	25.8	46.8	23.1	
(vii) Other food articles	0.689	117.1	167.9	191.2	157.5	168.5	173.5	182.9	266.5	301.5	274.2	301.0	271.1	17.1	43.4	13.8	-17.6	7.0	3.0	5.4	45.7	13.1	-9.1	9.8	
B Non-food articles	10.081	100.8	112.4	124.6	120.4	134.1	163.0	160.2	166.0	194.2	229.2	228.5	228.5	0.8	11.5	10.8	-3.3	11.3	21.6	-1.7	3.6	17.0	18.0	-0.3	
(i) Fibres	1.791	92.0	109.1	144.7	109.3	96.7	136.1	149.7	165.9	174.4	242.1	217.0	-8.0	18.6	32.6	-24.5	-11.6	40.7	10.0	10.8	5.1	38.8	-10.4		
(ii) Oilseeds	3.861	97.7	114.4	120.5	110.1	137.5	179.1	151.3	151.4	194.9	234.7	230.3	-2.3	17.1	5.3	-8.6	24.9	30.3	-15.6	0.1	28.7	20.4	-1.9		
(iii) Other non-food articles	4.429	107.1	112.0	120.0	134.0	146.2	159.9	172.3	178.8	201.6	219.3	231.6	231.6	7.1	4.6	7.1	11.6	9.2	9.3	7.7	3.8	12.8	8.8	5.6	
C Minerals	4.528	103.3	100.4	105.1	106.5	104.2	100.5	98.6	102.2	109.0	113.5	116.1	116.1	3.3	-2.9	4.7	1.4	-2.1	-3.6	-1.9	3.7	6.7	4.1	2.3	
(i) Metallic minerals	0.231	116.0	118.2	126.8	139.2	148.6	157.4	159.1	163.1	164.8	191.9	206.5	16.0	1.9	7.3	9.8	6.8	5.9	1.1	2.5	1.0	16.4	7.6		
(ii) Other minerals	0.323	97.1	98.0	116.6	129.4	137.6	153.0	180.0	196.3	194.1	223.3	229.1	-2.9	0.9	19.0	10.9	10.9	6.4	11.2	17.7	9.1	-1.1	15.0	2.6	
(iii) Petroleum crude and natural gas	4.274	103.1	99.6	103.0	103.0	99.3	92.5	89.1	91.8	99.6	101.0	102.8	3.1	-3.4	3.4	0.0	-3.6	-5.9	-4.6	3.0	8.5	1.4	1.8		
III Fuel, power, light and lubricants	10.663	106.5	112.5	117.3	129.8	138.6	143.3	151.2	156.6	175.8	199.0	227.0	6.5	5.6	4.2	10.7	6.7	3.5	5.5	3.6	12.3	13.2	14.1		
(i) Coal mining	1.256	115.9	128.2	155.1	159.2	174.5	183.0	212.3	231.8	232.6	249.9	301.2	15.9	10.6	21.0	2.6	9.6	4.9	16.0	9.2	0.3	7.4	20.5		
(ii) Mineral oils	6.666	102.8	106.3	107.1	120.3	125.7	126.3	129.2	129.7	154.7	179.6	204.2	2.8	3.4	0.8	12.3	4.4	0.5	2.3	0.4	19.3	16.1	13.7		
(iii) Electricity	2.741	111.4	120.5	124.8	139.7	153.5	166.7	176.6	187.7	200.9	222.8	250.2	11.4	8.1	3.6	11.9	9.9	8.6	5.9	6.3	7.0	10.9	12.3		
IV Manufactured products	57.042	103.5	109.8	117.5	124.5	129.2	138.5	151.5	168.6	182.8	203.3	225.6	3.5	6.1	7.0	6.0	3.7	7.2	9.4	11.3	8.4	11.3	10.9		
(i) Food products	10.143	97.4	107.8	113.9	117.2	129.1	140.5	147.8	165.3	181.7	206.3	224.1	-2.6	10.6	5.7	2.9	10.1	8.9	5.1	11.9	9.9	13.5	8.6		
(ii) Dairy products	0.642	104.5	105.6	127.8	128.9	137.7	153.0	174.7	187.1	191.5	224.6	260.6	4.5	1.0	21.0	0.9	6.9	11.1	14.2	7.1	2.4	17.3	16.0		
(iii) Grain mill products	1.530	112.0	128.2	118.0	112.0	124.7	131.5	153.8	173.3	184.5	213.7	243.9	12.0	14.5	-7.9	-5.1	11.3	5.4	17.0	12.7	6.5	15.8	14.1		
(iv) Bakery products	0.242	107.8	114.1	114.8	117.8	129.8	139.6	148.8	156.8	165.0	198.6	229.8	7.8	5.9	0.6	2.6	10.1	7.6	6.6	5.4	5.2	20.4	15.7		
(v) Sugar, khandasari and gur	4.059	83.2	92.1	100.0	115.8	117.9	117.1	126.8	152.0	152.3	160.1	179.8	-16.8	10.7	8.5	15.9	1.8	-0.7	8.4	19.9	0.2	5.1	12.3		
(vi) Manufacture of common salt	0.035	98.3	96.7	108.5	111.6	115.6	113.8	127.2	149.7	166.0	200.4	215.8	-1.7	-1.7	12.2	2.9	3.5	-1.5	11.8	17.7	10.9	20.7	7.7		
(vii) Edible oils	2.445	104.9	117.4	126.3	116.6	144.2	175.5	170.2	177.5	223.3	265.9	265.1	4.9	11.9	7.5	-7.6	23.6	21.7	-3.0	4.3	25.8	19.1	-0.3		
(viii) Tea and coffee processing	0.236	109.2	125.0	148.4	153.6	160.4	166.8	186.8	189.3	249.0	301.0	306.0	9.2	14.5	18.7	3.5	4.4	4.0	0.0	13.5	31.5	20.9	1.7		
2 Beverages, tobacco and tobacco products	2.149	100.2	106.2	111.1	123.2	133.0	155.0	180.7	207.7	242.1	265.7	293.7	0.2	6.5	4.1	10.8	8.0	16.6	16.5	14.9	16.6	9.7	10.5		
(i) Soft-drink	0.066	105.8	108.9	111.0	133.7	142.1	189.1	198.1	205.2	220.1	276.6	305.2	5.8	2.9	1.9	20.5	6.3	33.1	4.7	3.6	7.3	25.7	10.3		
(ii) Manufacture of bidi and cigarette	1.925	99.8	106.9	111.4	123.1	133.3	155.1	182.7	211.9	248.8	272.7	302.3	-0.2	7.1	4.2	10.4	8.3	16.3	17.8	16.0	17.4	9.6	10.9		
3 Textiles	11.545	104.8	109.5	120.0	119.5	116.0	126.6	139.6	158.2	171.2	188.3	200.7	4.8	4.5	9.6	-0.4	-2.9	9.1	10.2	13.3	8.2	10.0	6.6		
(i) Cotton textiles	6.093	104.6	108.7	113.0	116.4	115.9	127.3	140.7	160.1	172.8	197.7	215.5	4.6	3.9	4.0	3.0	-0.4	9.8	10.5	13.8	7.9	14.4	9.0		
(a) Cotton cloth mill	3.159	107.7	110.8	113.2	120.0	121.1	125.1	132.5	148.4	158.8	183.4	201.0	7.7	2.9	2.1	6.0	0.9	3.3	5.9	12.0	7.0	15.5	9.6		

Table 5: Index Numbers of Wholesale Prices (Commodity Groups and Sub-Groups)—Annual Average Basis (Continued)
(Base 1981-82=100)

Weight	1982-83	1983-84	1984-85	1985-86	Annual Average Index Numbers										Percentage Change over Previous Year											
					1986-87	1987-88	1988-89	1989-90	1990-91	1991-92	1992-93	1982-83	1983-84	1984-85	1985-86	1986-87	1987-88	1988-89	1989-90	1990-91	1991-92	1992-93				
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)	(18)	(19)	(20)	(21)	(22)	(23)	(24)			
(b) Cotton cloth powerloom	0.906	98.9	103.7	105.6	102.9	104.8	114.4	128.4	154.7	176.7	197.7	218.6	-1.1	4.9	1.8	-2.5	1.8	9.1	12.3	20.5	14.2	11.9	10.6			
(c) Cotton cloth handloom	0.740	104.8	112.9	117.3	120.6	127.6	135.0	150.6	171.1	201.3	203.6	216.6	4.8	7.8	3.8	2.8	5.8	5.8	11.6	13.6	17.7	1.1	6.4			
(d) Khadi cloth	0.056	108.3	116.5	116.5	148.4	148.4	148.4	148.4	148.4	148.4	148.4	148.9	8.3	7.6	0.0	27.4	0.0	0.0	0.0	0.0	0.0	0.0	0.3			
(e) Jute textiles	0.689	113.0	144.6	234.1	179.5	141.6	156.5	196.8	245.1	282.7	283.1	273.0	13.0	27.9	61.8	-23.3	-21.1	10.5	25.8	24.5	15.2	0.1	-3.6			
4 Wood and wood products	1.198	113.4	122.5	125.0	146.0	149.0	154.7	156.6	157.7	159.1	161.6	318.2	13.4	8.0	2.1	16.8	2.0	3.8	1.3	0.7	0.9	1.6	96.9			
5 Paper and paper products	1.988	108.5	118.2	131.4	144.1	154.3	170.2	180.9	208.4	222.4	261.5	311.4	8.5	9.0	11.1	9.7	7.1	10.4	6.3	15.3	6.7	17.6	19.1			
6 Leather and leather products	1.018	100.3	108.3	115.4	128.1	134.2	142.9	168.4	185.7	224.3	233.9	228.1	0.3	7.9	6.6	11.0	4.7	6.5	17.8	10.3	20.8	4.3	-2.5			
7 Rubber and plastic products	1.592	108.4	109.7	115.6	125.6	132.8	143.5	155.3	159.5	164.9	170.6	186.2	8.4	1.1	5.5	8.6	5.8	8.0	8.2	2.7	3.4	3.5	9.1			
8 Chemical and chemical products	7.355	103.5	107.3	112.0	118.3	124.6	131.9	135.8	140.0	147.9	168.4	192.5	3.5	3.7	4.4	5.6	5.3	5.9	2.9	3.1	5.6	13.9	14.3			
(i) Inorganic chemicals	0.764	103.5	110.8	113.0	127.4	136.6	140.5	152.5	170.3	185.1	216.1	248.9	3.5	7.0	2.0	12.7	7.2	2.9	8.6	11.7	8.7	16.7	15.2			
(ii) Organic chemicals	0.452	102.7	101.6	101.8	107.9	107.5	104.9	107.6	109.3	111.8	119.8	127.1	2.7	-1.0	0.2	5.9	-0.4	-2.4	2.6	1.6	2.3	7.2	6.1			
(iii) Fertilisers	1.748	105.0	99.0	98.4	100.7	107.5	107.6	98.9	99.1	99.1	123.9	160.8	5.0	-5.7	-0.7	2.4	6.8	0.0	-8.0	0.2	0.0	25.0	29.8			
(iv) Drugs and medicines	1.065	104.4	107.7	111.5	118.2	122.3	128.3	136.9	140.4	149.6	159.6	170.4	4.4	3.2	3.5	6.1	3.5	5.0	6.6	2.6	6.6	6.8	6.6			
(v) Soaps and detergents	0.880	103.9	114.1	128.9	136.1	142.3	154.7	155.9	154.5	160.5	182.8	200.9	3.9	9.8	13.0	5.6	4.6	8.7	0.7	-0.9	3.9	13.9	9.9			
9 Non-metallic mineral products	2.477	114.5	127.7	138.6	141.1	142.5	147.9	152.4	167.0	185.6	215.7	232.7	14.5	11.5	8.5	1.8	1.0	3.8	3.0	9.6	11.1	16.2	7.9			
(i) Cement	0.860	124.6	144.7	158.4	153.5	139.4	139.2	133.2	147.8	173.1	197.1	209.8	24.6	16.1	9.5	-3.1	-9.2	-0.1	-4.3	11.0	17.1	13.9	6.4			
10 Basic metals, alloys and metal products	7.632	104.5	111.7	123.1	139.7	141.3	149.7	176.4	205.6	219.9	234.8	256.5	4.5	6.9	10.2	13.4	1.2	6.0	17.8	16.6	7.0	6.8	9.2			
(i) Basic metals, and alloys																										
(a) Iron and steel	4.784	105.2	112.4	123.2	145.2	145.3	151.4	174.4	196.3	207.3	220.1	242.3	5.2	6.8	9.6	17.9	0.1	4.2	15.2	12.6	5.7	6.1	10.1			
(b) Ferro alloys	2.441	101.9	107.2	117.5	141.5	138.6	143.4	163.8	188.8	201.5	212.6	232.9	1.9	5.2	9.6	20.4	-2.0	3.5	14.2	15.3	6.7	5.5	9.5			
(ii) Non-ferrous metals	0.196	96.8	103.6	115.8	128.8	138.1	152.9	176.1	207.6	216.0	230.4	240.6	-3.2	7.0	11.8	11.2	7.2	10.7	15.2	17.9	4.0	6.7	4.4			
(a) Aluminium	1.025	100.5	108.8	120.8	127.2	131.0	155.6	197.4	242.6	255.8	271.4	295.6	0.5	8.3	11.0	5.3	3.0	18.8	26.9	22.9	5.4	6.1	8.9			
(ii) Metal products	0.454	100.9	101.9	114.4	122.3	125.7	147.4	170.7	212.6	220.9	227.6	247.2	0.9	0.9	12.4	6.9	2.8	17.2	15.8	24.6	3.9	3.0	8.6			
(iii) Machinery and machine tools	1.823	104.9	111.4	124.1	132.0	136.6	142.4	169.8	209.2	232.6	252.8	271.7	4.9	6.2	11.4	6.3	3.5	4.0	19.5	23.2	11.2	8.7	7.5			
11 Machinery and machine tools	6.268	102.8	106.7	112.2	121.4	127.3	132.3	150.8	166.2	180.2	208.3	230.2	2.8	3.8	5.2	8.2	4.8	3.9	14.0	10.2	8.4	15.6	10.5			
(i) Non-electrical machinery	3.277	105.0	109.2	115.2	124.8	131.2	134.9	154.3	173.0	190.0	220.0	243.2	5.0	4.0	5.5	8.3	5.1	2.8	14.5	12.1	9.8	15.8	10.5			
(ii) Electrical machinery	2.991	100.4	103.9	108.9	117.6	123.0	129.4	146.9	158.8	169.4	195.5	215.9	0.4	3.5	4.8	8.0	4.5	5.2	13.5	8.1	6.7	15.4	10.4			
12 Transport equipment and parts	2.705	103.6	105.6	111.9	123.0	129.6	135.5	148.9	166.2	181.3	202.5	218.1	3.6	2.0	5.9	10.0	5.4	4.5	9.9	11.6	9.1	11.7	7.7			
13 Other misc mfg products	0.972	101.8	101.6	101.5	99.3	107.0	109.8	113.1	117.2	119.0	128.3	138.8	1.8	-0.1	-0.1	-2.2	7.7	2.7	2.9	3.7	1.5	7.8	8.2			
Food Index	27.529	106.1	119.6	125.2	127.9	140.9	153.5	166.3	174.1	193.6	228.3	253.7	6.1	12.7	4.7	2.2	10.2	8.9	8.3	4.7	11.2	17.9	11.1			

Source: Reserve Bank of India, Report on Currency and Finance, various issues; and Government of India, Economic Survey, various issues.

Table 6: Weighted Contribution of Sub-Groups and Commodities to Changes in Index Numbers of Wholesale Prices

Weight	Annual Average Basis											Point-to-Point Basis: End-March											1991-92	1991-92	92	93	
	1982-83	1983-84	1984-85	1985-86	1986-87	1987-88	1988-89	1989-90	1990-91	1991-92	1992-93	1982-83	1983-84	1984-85	1985-86	1986-87	1987-88	1988-89	1989-90	1990-91	1991-92						
I All commodities	100.000	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
II Primary articles	32.295	44.2	46.4	32.7	1.2	50.9	45.6	22.6	9.9	40.5	43.0	25.2	42.6	41.5	18.3	29.6	35.3	48.1	-1.2	23.0	44.6	37.1	14.4	14.4	14.4	14.4	14.4
A Food articles	17.386	39.4	33.4	12.7	7.6	32.6	21.2	26.0	3.4	21.8	28.1	24.9	40.1	17.6	13.4	20.0	20.1	28.7	12.4	4.5	28.1	29.4	15.6	15.6	15.6	15.6	15.6
(i) Food grains	7.917	14.7	10.2	-2.5	11.1	5.3	8.6	15.2	2.5	6.4	11.7	9.9	20.2	3.2	3.3	14.2	1.2	11.8	13.5	-3.2	13.9	14.3	2.4	2.4	2.4	2.4	2.4
(a) Cereals	6.824	16.0	8.0	5.7	9.7	6.7	6.1	10.4	2.0	5.0	10.8	9.4	21.2	-6.5	0.8	14.0	1.7	8.9	11.0	-4.8	12.7	13.4	-2.9	-2.9	-2.9	-2.9	-2.9
(b) Pulses	1.093	-1.3	2.2	3.2	1.5	-1.5	2.5	4.7	-0.5	1.4	0.9	0.5	-1.0	3.3	2.5	0.2	-0.5	2.9	2.5	1.6	1.2	0.9	0.5	0.5	0.5	0.5	0.5
(ii) Vegetables	1.291	4.4	6.4	-5.8	2.6	12.0	-2.9	-1.8	2.1	4.1	1.3	0.2	1.8	1.1	-5.7	16.1	-5.1	-0.6	2.1	2.5	1.8	0.7	2.7	2.7	2.7	2.7	2.7
(iii) Fruits	2.798	4.4	6.9	10.8	-10.3	7.2	7.0	3.6	7.3	4.0	6.6	3.7	6.6	6.8	10.1	-13.9	13.8	9.3	-13.1	-0.8	5.7	5.4	3.6	3.6	3.6	3.6	3.6
(iv) Milk	1.961	4.2	2.7	3.0	2.9	1.9	2.7	4.1	2.8	0.9	2.1	2.7	3.1	3.4	2.1	2.9	3.1	2.2	6.2	1.2	1.7	2.3	3.1	3.1	3.1	3.1	3.1
(v) Eggs, fish and meat	1.783	5.1	1.4	1.7	4.5	2.4	1.3	2.1	1.2	1.7	2.0	3.1	4.3	0.0	4.0	5.2	1.2	1.1	1.5	1.3	1.6	2.2	4.6	4.6	4.6	4.6	4.6
(vi) Condiments and spices	0.947	3.9	1.8	3.2	1.1	3.6	3.9	2.2	-2.9	3.2	5.0	4.4	0.2	5.9	0.9	-0.6	3.4	4.9	-2.4	0.8	3.6	4.8	0.8	0.8	0.8	0.8	0.8
(vii) Other food articles	0.689	2.4	4.4	2.2	-4.4	1.0	0.3	0.6	5.0	1.4	-0.7	0.9	3.9	3.4	-1.2	-3.7	2.6	-0.1	4.6	2.7	-0.2	-0.3	3.2	3.2	3.2	3.2	3.2
B Non-food articles	10.081	1.6	14.6	17.0	-7.9	18.9	26.7	2.6	5.1	16.8	14.1	-0.3	2.2	21.5	3.8	8.4	19.9	20.5	-14.2	14.8	16.6	6.6	-2.1	-2.1	-2.1	-2.1	-2.1
(i) Fibres	1.791	-2.9	3.8	8.8	-12.0	-3.1	6.5	2.3	2.6	0.9	4.8	-2.2	0.0	5.3	4.6	-15.2	6.5	4.5	3.9	-0.8	3.4	2.6	-2.8	-2.8	-2.8	-2.8	-2.8
(ii) Oilseeds	3.861	-1.8	8.1	3.3	-7.6	14.5	14.7	-10.0	0.0	9.9	6.1	-0.8	-2.9	10.5	-3.7	0.8	17.2	8.6	-18.3	9.8	8.3	1.5	-4.9	-4.9	-4.9	-4.9	-4.9
(iii) Other non-food articles	4.429	6.4	2.7	4.9	11.7	7.4	5.6	5.1	2.4	6.0	3.1	2.6	5.2	5.7	2.8	22.9	-4.0	7.3	0.3	5.8	4.9	3.1	5.6	5.6	5.6	5.6	5.6
C Minerals	4.828	3.3	-1.8	3.1	1.3	-1.5	-1.6	-0.8	1.5	1.9	0.9	0.6	0.1	2.5	1.3	0.9	-4.8	-0.7	0.2	3.6	-0.1	1.1	1.0	1.0	1.0	1.0	1.0
(i) Metallic minerals	0.231	0.8	0.1	0.3	0.5	0.3	0.2	0.1	0.1	0.0	0.2	0.2	0.6	0.2	0.1	0.6	0.4	0.1	0.1	0.1	0.0	0.3	0.7	0.7	0.7	0.7	0.7
(ii) Other minerals	0.323	-0.2	0.1	0.8	0.8	0.4	0.5	0.8	0.5	-0.1	0.4	0.1	0.3	0.5	1.2	0.3	0.4	0.3	1.1	0.2	0.0	0.5	-0.3	-0.3	-0.3	-0.3	-0.3
(iii) Petroleum crude and natural gas	4.274	2.7	-1.9	2.0	0.0	-2.2	-2.3	-1.7	1.0	2.0	0.3	0.4	0.2	1.8	0.0	0.0	-5.6	-1.1	-1.0	3.3	-0.1	0.3	0.5	0.5	0.5	0.5	0.5
III Fuel, power, light and lubricants	10.663	14.1	8.0	7.1	25.1	12.9	4.6	7.9	5.1	12.0	9.9	14.4	14.5	8.6	10.0	26.7	4.9	5.5	9.5	7.3	12.2	10.2	22.6	22.6	22.6	22.6	22.6
(i) Coal mining	1.256	4.1	1.9	4.7	1.0	2.6	1.0	3.4	2.1	0.1	0.9	3.1	3.5	5.6	0.1	4.2	0.0	2.8	3.8	0.1	0.0	3.1	3.1	3.1	3.1	3.1	3.1
(ii) Mineral oils	6.666	3.8	2.9	0.7	16.6	4.9	0.4	1.8	0.4	9.8	6.6	7.9	5.1	0.5	8.6	12.2	-0.8	1.4	1.1	5.5	9.3	4.0	15.2	15.2	15.2	15.2	15.2
(iii) Electricity	2.741	6.3	3.1	1.7	7.7	5.2	3.3	2.6	2.6	2.1	2.4	3.6	6.0	2.4	1.3	10.5	5.7	1.4	4.6	1.7	2.9	3.1	4.3	4.3	4.3	4.3	4.3
IV Manufactured products	57.042	40.7	44.9	61.0	75.2	36.7	48.7	69.3	85.5	47.6	46.8	60.8	42.8	49.6	70.3	47.4	57.9	47.1	90.3	70.3	43.0	52.7	63.0	63.0	63.0	63.0	63.0
1 Food products	10.143	-5.4	13.2	8.6	6.3	16.5	10.6	31.5	15.6	9.8	9.9	8.7	4.6	17.0	3.2	11.2	18.1	8.2	9.5	13.7	10.9	7.6	9.4	9.4	9.4	9.4	9.4
(i) Dairy products	0.642	0.6	0.1	2.0	0.1	0.8	0.9	1.3	0.7	0.2	0.8	1.1	0.1	1.0	1.4	-0.2	1.6	0.7	1.7	0.2	0.5	1.5	-0.3	-0.3	-0.3	-0.3	-0.3
(ii) Grain mill products	1.530	3.7	3.1	-2.2	-1.7	2.7	1.0	3.2	2.6	1.0	1.8	2.2	3.8	2.3	-4.0	1.6	2.9	0.8	5.6	0.8	1.7	2.3	0.8	0.8	0.8	0.8	0.8
(iii) Bakery products	0.242	0.4	0.2	0.0	0.1	0.4	0.2	0.2	0.2	0.1	0.3	0.4	0.3	0.2	-0.1	0.5	0.3	0.2	0.4	0.0	0.2	0.5	0.1	0.1	0.1	0.1	0.1
(iv) Sugar, khandasari and gur	4.059	-13.9	4.5	4.5	12.1	1.2	-0.3	3.7	8.9	0.1	1.3	3.8	12.3	7.6	5.0	8.5	-3.5	2.0	7.3	4.9	0.0	1.3	11.5	11.5	11.5	11.5	11.5
(v) Manufacture of common salt	0.035	0.0	0.0	0.1	0.0	0.0	0.0	0.1	0.1	0.0	0.1	0.0	0.1	0.0	0.1	0.0	0.1	0.0	0.1	0.1	0.0	0.1	0.0	0.1	0.0	0.1	0.0
(vi) Edible oils	2.445	2.4	3.8	3.0	-4.5	9.2	7.0	-1.2	1.5	6.6	4.1	-0.1	2.3	4.6	-0.6	0.9	12.9	3.3	-3.8	4.8	7.3	0.5	-2.9	-2.9	-2.9	-2.9	-2.9
(vii) Tea and coffee processing	0.236	0.4	0.5	0.8	0.2	0.2	0.1	0.0	0.5	0.8	0.5	0.1	0.5	0.5	0.8	-0.1	0.6	0.0	0.1	1.2	0.6	0.1	-0.1	-0.1	-0.1	-0.1	-0.1
2 Beverages, tobacco and tobacco products	2.149	0.1	1.6	1.5	4.9	2.9	4.3	5.2	5.1	4.3	2.0	2.9	1.3	0.8	1.4	7.2	3.5	2.6	6.5	5.7	2.5	3.2	1.6	1.6	1.6	1.6	1.6
(i) Soft drinks	0.066	0.1	0.0	0.0	0.3	0.1	0.3	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.2	0.0	0.5	0.0	0.1	0.0	0.2	0.1	0.1	0.1	0.1	0.1	0.1
(ii) Manufacture of bidi and cigarette	1.925	-0.1	1.7	1.2	4.2	2.7	3.9	5.0	5.0	4.2	1.8	2.7	1.1	0.8	1.1	6.7	2.8	2.4	6.4	5.6	2.2	3.0	1.4	1.4	1.4	1.4	1.4
3 Textiles	11.545	11.3	6.8	16.8	-1.1	-5.5	11.2	14.0	18.8	8.8	7.9	6.9	12.5	8.1	16.6	-15.7	9.2	11.6	13.1	20.0	5.0	8.9	8.1	8.1	8.1	8.1	8.1
(i) Cotton textiles	6.093	5.7	3.1	3.6	3.9	-0.4	6.4	7.6	10.4	4.6	6.0	5.2	6.3	1.9	4.1	0.7	3.7	6.7	8.1	10.4	3.3	6.8	4.6	4.6	4.6	4.6	4.6
(ii) Cotton cloth mill	3.199	5.0	1.2	1.1	4.1	0.5	1.2	2.2	4.4	1.9	3.1	2.7	4.3	0.7	1.2	3.4	0.5	1.0	3.2	4.1	2.2	3.6	1.7	1.7	1.7	1.7	1.7

Continued

(Continued)

Table 6: Weighted Contribution of Sub-Groups and Commodities to Changes in Index Numbers of Wholesale Prices (Continued)

Weight	Annual Average Basis											Point-to-Point Basis: End-March											1991-92	1992-93
	1982-83	1983-84	1984-85	1985-86	1986-87	1987-88	1988-89	1989-90	1990-91	1991-92	1992-93	1982-83	1983-84	1984-85	1985-86	1986-87	1987-88	1988-89	1989-90	1990-91	1991-92			
(b) Cotton cloth powerloom	0.906	-0.2	0.5	0.2	-0.5	0.2	0.8	1.2	2.1	1.2	0.8	0.9	0.5	0.2	0.5	-0.3	-0.1	0.7	2.6	2.2	0.8	0.1	3.1	
(c) Cotton cloth handloom	0.740	0.7	0.7	0.5	0.5	0.7	0.5	1.1	1.3	1.3	0.1	0.5	1.0	0.5	0.4	0.3	1.3	0.2	1.7	2.4	0.0	0.4	0.0	
(d) Khadi cloth	0.056	0.1	0.1	0.0	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.3	0.0	0.0	0.0	0.0	0.0	0.0		
(e) Jute textiles	0.689	1.8	2.7	8.6	-7.1	-3.6	0.9	2.6	2.9	1.5	0.0	-0.3	2.0	6.3	4.2	11.7	1.7	1.1	3.1	3.7	0.5	-0.5	-0.1	
4 Wood and wood products	1.198	3.3	1.4	0.4	4.7	0.5	0.6	0.2	0.1	0.1	0.1	9.0	2.5	1.4	0.2	4.5	1.0	0.2	0.1	0.2	0.0	2.4	10.5	
5 Paper and paper products	1.988	3.4	2.4	3.6	4.8	2.8	2.9	2.0	4.8	1.6	3.1	4.8	3.4	2.2	4.9	4.3	2.8	2.3	3.7	2.8	2.2	5.0	3.2	
6 Leather and leather products	1.018	0.1	0.1	1.0	2.4	0.9	0.8	2.4	1.6	2.3	0.4	-0.3	0.5	1.1	0.9	2.5	0.8	1.6	1.4	2.1	1.5	-0.1	0.4	
7 Rubber and plastic products	1.592	2.7	0.3	1.3	3.0	1.6	1.6	1.8	0.6	0.5	0.4	1.2	1.5	1.2	2.1	1.4	2.6	2.1	0.1	0.7	0.2	1.0	0.6	
8 Chemical and chemical products	7.355	5.3	3.5	4.8	8.7	6.3	4.9	2.7	2.7	3.4	6.0	8.5	5.9	3.2	5.3	9.0	6.9	3.0	3.2	3.4	3.7	6.7	10.9	
(i) Inorganic chemicals	0.764	0.5	0.7	0.2	2.1	1.0	0.3	0.9	1.2	0.7	0.9	1.2	0.8	0.3	0.9	1.7	0.8	0.3	1.6	0.7	1.0	0.8	0.7	
(ii) Organic chemicals	0.452	0.2	-0.1	0.0	0.5	0.0	-0.1	0.1	0.1	0.1	0.1	0.2	0.4	-0.3	-0.2	0.7	-0.2	0.1	0.1	0.1	0.1	0.2	0.1	
(iii) Fertilisers	1.748	1.8	-1.3	-0.1	0.8	1.6	0.0	-1.4	0.0	0.0	1.7	3.1	1.2	-1.6	0.1	2.6	0.3	-0.4	-1.1	0.0	0.0	1.9	3.8	
(iv) Drugs and medicines	1.065	1.0	0.4	0.6	1.3	0.6	0.6	0.8	0.3	0.6	0.4	0.5	1.0	0.5	0.4	1.3	1.2	0.3	0.9	0.7	0.3	0.5	0.5	
(v) Soaps and detergents	0.860	0.7	1.1	1.8	1.2	0.7	1.0	0.1	-0.1	0.3	0.8	0.8	0.9	1.6	1.6	0.5	1.3	0.5	-0.3	0.2	0.1	1.0	0.5	
9 Non-metallic mineral products	2.477	7.3	4.1	3.7	1.2	0.5	1.2	1.0	3.2	2.7	3.0	2.0	6.7	4.6	3.6	-1.6	2.2	0.0	3.6	3.3	2.3	3.1	1.1	
(i) Cement	0.860	4.3	2.2	1.6	-0.8	-1.7	0.0	-0.5	4.1	1.3	0.8	0.5	3.6	2.0	2.9	-4.5	-0.2	-0.7	1.5	1.3	0.9	1.1	-0.4	
10 Basic metals, alloys and metal products	7.632	7.0	6.9	12.1	23.9	1.7	5.9	19.0	19.5	6.4	4.5	8.0	7.3	7.3	20.9	9.1	4.1	9.2	28.3	9.5	6.7	4.0	11.6	
(i) Basic metals, and alloys	4.784	5.1	4.3	7.2	19.9	0.1	2.7	10.3	9.2	3.1	2.4	5.1	4.5	4.6	15.5	7.1	0.3	6.2	12.1	5.3	3.1	2.2	7.5	
(a) Iron and steel	2.441	0.9	1.6	3.5	11.1	-1.0	1.1	4.7	5.4	1.8	1.1	2.4	1.2	1.5	7.5	4.4	-0.6	3.4	4.8	3.5	1.4	0.9	4.2	
(b) Ferro alloys	0.196	-0.1	0.2	0.3	0.5	0.2	0.3	0.4	0.5	0.1	0.1	0.1	0.0	0.2	0.3	0.5	0.2	0.3	0.9	0.1	0.1	0.1	0.3	
(ii) Non-ferrous metals	1.025	0.1	1.1	1.7	1.2	0.5	2.3	4.0	4.1	0.8	0.6	1.2	0.7	1.3	1.2	1.1	2.4	1.9	7.8	0.7	1.0	0.7	1.3	
(a) Aluminium	0.454	0.1	0.1	0.8	0.7	0.2	0.9	1.0	1.7	0.2	0.1	0.4	0.1	0.2	0.8	0.5	1.5	--	--	0.2	0.3	0.1	0.6	
(iii) Metal products	1.823	1.8	1.5	3.2	2.7	1.1	0.9	4.7	6.3	2.5	1.5	1.7	2.2	1.6	4.1	0.9	1.4	1.1	8.5	3.5	2.7	1.1	2.8	
11 Machinery and machine tools	6.268	3.6	3.1	4.8	10.9	5.1	2.9	10.8	8.5	5.2	7.0	6.6	3.3	3.2	6.7	9.3	4.7	4.3	14.7	5.7	5.7	8.1	4.2	
(i) Non-electrical machinery	3.277	3.3	1.7	2.7	5.9	2.9	1.1	5.9	5.4	3.3	3.9	3.7	2.8	1.6	3.9	5.1	2.6	1.8	8.7	3.9	3.2	4.7	1.6	
(ii) Electrical machinery	2.991	0.2	1.3	2.1	4.9	2.2	1.8	4.9	3.1	1.9	3.1	2.9	0.5	1.6	2.8	4.2	2.1	2.5	5.9	1.7	2.2	3.5	2.6	
12 Transport equipment and parts	2.705	2.0	0.7	2.4	5.7	2.4	1.5	3.4	4.1	2.4	2.3	2.0	1.8	0.4	4.2	4.8	2.0	1.6	5.5	3.2	2.1	2.3	0.9	
13 Other misc mfg products	0.972	0.4	-0.1	0.0	-0.4	1.0	0.2	0.3	0.3	0.1	0.4	0.5	0.3	-0.1	-0.5	1.0	0.8	0.1	0.7	0.1	0.3	0.2	0.9	
Feed Index	27.529	34.0	46.6	21.3	13.9	49.1	31.8	57.5	19.0	31.6	38.0	33.6	35.5	34.6	16.6	31.2	38.1	36.9	21.9	18.2	39.0	37.0	25.0	

Table 7: Index Numbers of Wholesale Prices—Basic Consumption Items (Base 1981-82 = 100)

Weight	(1)	Year												Percentage Change over Previous Year											
		1982-83	1983-84	1984-85	1985-86	1986-87	1987-88	1988-89	1989-90	1990-91	1991-92	1992-93	1993-94	1982-83	1983-84	1984-85	1985-86	1986-87	1987-88	1988-89	1989-90	1990-91	1991-92	1992-93	1993-94
		(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)	(18)	(19)	(20)	(21)	(22)	(23)	(24)	(25)
General Index		100.00	107.2	114.9	121.8	127.7	134.2	148.5	156.9	171.1	191.8	217.8	233.1	7.2	7.2	6.0	4.8	5.1	10.7	5.7	9.1	12.1	13.6	7.0	
Rice		3.685	124.6	121.4	120.6	127.6	134.1	152.6	162.8	165.4	187.5	246.1	244.6	4.6	-2.6	-0.7	5.8	5.1	13.8	6.7	1.6	13.4	13.3	-0.6	
Wheat		2.248	125.6	111.1	114.7	130.0	129.0	146.7	165.0	137.6	204.9	230.1	236.2	25.6	-11.5	3.2	13.3	-0.8	13.7	12.5	-16.6	48.9	12.3	2.7	
Jowar		0.420	96.2	95.7	96.5	108.3	108.6	110.9	156.9	130.0	154.2	255.2	204.2	-3.8	-0.5	0.8	12.2	0.3	2.1	41.5	-17.1	18.6	65.5	20.0	
Bajra		0.178	102.5	96.7	98.3	140.6	113.9	153.0	118.6	120.3	152.0	265.6	176.8	2.5	-5.7	1.7	43.0	-19.0	34.3	-22.5	1.4	26.4	74.7	33.4	
Maize		0.191	121.9	102.8	96.6	142.4	117.9	165.0	160.1	137.4	190.9	263.6	173.8	21.9	-15.7	-6.0	47.4	-17.2	39.9	-3.0	-14.2	38.9	38.0	-34.1	
Barley		0.053	128.2	115.1	128.6	142.7	116.6	160.5	176.8	176.9	238.7	262.9	212.3	28.2	-10.2	11.7	11.0	-18.3	37.7	10.2	0.1	34.9	10.1	-19.2	
Ragi		0.049	104.1	103.7	105.8	114.2	110.2	130.3	139.9	129.4	144.7	197.1	201.1	4.1	-0.4	2.0	7.9	-3.5	18.2	7.4	-7.5	11.8	36.2	2.0	
Gram		0.410	69.1	100.7	129.4	137.6	96.5	133.9	187.7	192.9	196.8	195.0	241.6	-30.9	45.7	28.5	6.3	-29.9	38.8	40.2	2.8	2.0	-0.9	23.9	
Arhar		0.274	118.3	124.9	105.9	114.5	164.5	204.9	162.4	209.4	268.0	311.8	298.8	18.3	5.6	-15.2	8.1	43.7	24.6	-20.7	28.9	28.0	16.3	-4.2	
Moong		0.201	92.3	116.3	158.9	131.3	131.5	190.3	203.5	208.1	209.8	264.1	261.9	-7.7	26.0	36.6	-17.4	0.2	44.7	6.9	2.3	0.8	25.9	-0.8	
Masur		0.054	74.7	100.4	102.0	120.2	109.6	136.3	178.8	186.3	224.9	212.3	201.4	-25.3	34.4	1.6	17.8	-8.8	24.4	31.2	4.2	20.7	-5.6	-5.1	
Urad		0.154	120.1	152.4	165.5	166.0	167.8	182.7	216.9	260.6	290.5	305.7	259.2	20.1	26.9	8.6	0.3	1.1	8.9	18.7	20.1	11.5	52	-15.2	
Potatoes		0.472	115.8	115.5	63.6	211.7	130.3	113.7	122.8	147.9	181.7	99.7	195.9	15.8	-0.3	-44.9	232.9	-38.5	-12.7	8.0	20.4	22.9	8.5	-0.7	
Onions		0.156	81.1	92.0	82.5	83.0	126.6	134.6	107.5	104.9	207.7	97.2	242.9	-18.9	13.4	-10.3	0.6	52.5	6.3	-20.1	-2.4	98.0	-52.0	143.6	
Banana		0.468	90.5	100.5	100.8	121.0	174.0	195.7	170.3	160.1	221.2	272.9	253.6	9.5	11.0	0.3	20.0	43.8	12.5	-13.0	-6.0	38.2	23.4	-7.1	
Milk		1.961	111.2	124.7	132.1	140.9	151.3	167.0	193.5	202.2	220.1	250.2	274.3	11.2	12.1	5.9	6.7	7.4	10.4	15.9	4.5	8.9	13.7	9.6	
Eggs		0.263	100.5	99.0	111.1	109.1	123.4	138.1	141.0	136.9	166.5	188.7	222.5	0.5	-1.5	12.2	-1.8	13.1	11.9	2.1	-2.9	21.6	13.3	17.9	
Fish		0.507	132.0	115.2	136.1	166.4	170.2	161.4	162.0	179.4	197.4	236.4	308.6	32.0	-12.7	18.1	22.3	2.3	-5.2	0.4	10.7	10.0	19.8	30.5	
Mutton		0.521	111.0	117.4	138.0	158.4	170.3	183.3	197.3	209.9	238.8	255.8	287.3	11.0	5.8	17.5	14.8	7.5	7.6	7.6	6.4	13.8	7.1	12.3	
Pork		0.117	119.6	128.4	142.4	146.6	150.7	166.6	193.6	233.1	268.1	282.9	271.1	19.6	7.4	10.9	2.9	2.8	10.6	16.2	20.4	15.0	5.5	4.2	
Chillies (dry)		0.319	70.3	98.1	135.5	101.7	72.9	145.6	224.9	217.6	282.3	245.0	324.0	-29.7	39.5	38.1	-24.9	-28.3	99.7	54.5	44.9	44.7	92.4	-43.8	
Tea		0.564	147.7	185.0	168.5	125.4	154.1	153.9	217.6	282.3	245.0	247.8	324.0	47.7	25.3	-8.9	-25.6	22.9	-0.1	41.4	29.7	-13.2	1.1	30.8	
Coffee		0.125	108.5	147.6	157.5	174.8	182.7	173.5	198.2	213.8	344.9	268.3	310.6	8.5	36.0	6.7	11.0	4.5	-5.0	14.2	7.9	61.3	-22.2	15.8	
Maida		0.297	120.5	135.2	110.8	118.6	121.3	131.0	150.9	163.5	178.0	218.1	210.1	20.5	12.2	-18.0	7.0	2.3	8.0	15.2	8.3	8.9	22.5	-3.7	
Rawa		0.149	120.3	132.9	109.9	120.0	123.7	131.4	138.1	166.5	183.3	209.5	199.0	20.3	10.5	-17.3	9.2	3.1	6.2	5.1	20.6	10.1	14.3	-5.0	
Atta		0.763	117.3	127.0	110.7	115.9	131.2	135.7	172.1	170.6	203.1	250.6	258.8	17.3	8.3	-12.8	4.7	13.2	3.4	26.8	-0.9	19.1	23.4	3.3	
Bran		0.321	114.8	127.0	112.6	118.3	135.8	147.8	186.1	201.0	210.6	234.4	264.8	14.8	10.6	-11.3	5.1	14.8	8.8	25.9	8.0	4.8	11.3	13.0	
Bread		0.145	113.4	119.6	114.8	124.1	135.0	145.4	162.3	156.7	175.6	239.1	247.2	13.4	5.5	-4.0	8.1	8.8	7.7	11.6	-3.5	12.1	36.2	3.4	
Sugar		2.013	91.9	96.5	100.7	118.7	115.8	121.6	128.7	142.2	142.8	169.8	193.4	-8.1	5.0	4.4	17.9	-2.4	5.0	5.6	10.5	0.4	18.9	13.9	
Gur		1.746	64.8	92.2	104.6	109.1	101.9	110.5	136.0	153.3	153.5	142.9	210.6	-35.2	42.3	13.4	4.3	-6.6	8.4	23.1	12.7	0.1	-6.9	47.4	
Edible oils		2.445	166.7	121.1	119.4	121.5	155.9	175.0	162.0	189.8	251.8	256.7	238.6	6.7	13.5	-1.4	1.8	28.3	12.3	-7.4	17.2	32.7	1.9	-7.1	
Salt		0.035	94.7	98.1	113.0	113.9	121.6	108.2	132.6	157.5	176.1	220.2	231.7	-5.3	3.6	15.2	0.8	6.8	-11.0	22.6	18.8	11.8	25.0	5.2	
Kerosene		0.868	101.5	108.6	109.6	129.9	129.9	129.9	129.9	129.9	129.9	161.4	146.7	1.5	7.0	0.9	18.5	0.0	0.0	0.0	0.0	0.0	24.2	-9.1	
Cotton cloth		4.861	107.9	110.1	113.1	117.6	119.9	125.6	138.4	163.5	176.2	198.0	213.1	7.9	2.0	2.7	4.0	2.0	4.8	10.2	18.1	7.8	12.4	7.6	
Drugs and medicines		1.065	106.6	110.0	112.7	119.9	127.5	131.2	138.4	147.5	153.1	165.8	173.6	6.6	3.2	2.5	6.4	6.3	2.9	5.5	6.6	3.8	8.3	4.7	
Laundry soap		0.594	110.5	127.3	142.2	135.0	170.9	150.5	149.2	153.3	157.9	189.0	196.0	10.5	15.2	11.7	-5.1	26.6	-11.9	-0.9	2.7	3.0	19.7	3.7	
March box		0.233	104.6	107.3	113.7	116.4	116.9	134.4	134.4	134.4	134.4	138.4	151.2	4.6	2.6	6.0	2.4	0.4	15.0	0.0	0.0	0.0	3.0	9.2	
Composite index of basic consumption items*		28.925	108.9	117.2	121.0	128.1	135.2	151.1	158.7	169.2	195.0	225.1	228.7	8.9	7.6	3.2	5.9	5.5	11.8	5.0	6.6	15.2	15.4	1.6	

* Computed by us.

Note: Cotton cloth is the composite index of cotton cloth mill, powerloom, handloom and khadi.

Source: See Table 1.

Table 8(A): Percentage Share of Groups of Consumer Items in Total Consumer Expenditure for Rural Population, 1983

Sl No	State	Cereals and Pds	Pulses and Pds	Fruits and Veg	Spices and Salt	Ed Oils and Fats	Milk and Prods	Meat and Fish	Sugar and Gar	Other Food	Isotz- Cnts, Etc	Fuel and Light	Clothing, Etc	Other Non-Food	Total Food	Total Non-Food	MPC T-Exp (Rs)	Popu- lation (Mn)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)	(18)	(19)
1	Andhra Pradesh	29.9	3.4	5.0	3.5	4.1	4.5	4.5	3.6	4.7	5.9	11.3	18.0	60.1	39.9	115.82	42.33	
2	Assam	41.0	2.7	7.0	1.7	3.7	4.6	7.8	2.8	4.3	5.8	5.8	8.9	73.3	26.7	113.16	18.73	
3	Bihar	48.2	3.5	6.8	1.8	3.7	4.4	2.4	1.3	1.5	2.1	6.7	7.1	10.5	26.4	93.75	63.82	
4	Gujarat	21.3	4.2	7.7	2.4	7.2	12.8	4.8	4.8	4.2	3.0	6.9	8.4	65.7	34.3	122.76	24.36	
5	Haryana	18.8	2.7	4.6	1.9	2.2	24.5	0.6	5.0	3.3	2.6	6.6	16.4	63.6	36.4	151.85	10.61	
6	Himachal Pradesh	25.2	4.3	4.6	2.0	4.6	14.2	1.2	3.5	3.3	2.8	9.0	11.8	62.8	37.2	151.26	4.11	
7	Jammu and Kashmir	32.3	2.9	4.9	2.5	5.3	11.5	4.0	1.9	4.4	2.0	8.3	9.2	69.6	30.4	129.30	4.93	
8	Karnataka	30.3	4.1	6.4	3.3	3.1	5.1	3.0	5.0	5.0	3.6	8.3	9.6	63.2	36.8	117.20	27.28	
9	Kerala	25.1	1.6	8.2	2.0	2.6	4.0	6.0	5.4	7.8	3.0	5.6	6.8	62.7	37.3	149.99	21.38	
10	Madhya Pradesh	36.7	4.9	5.0	2.3	4.3	6.4	1.4	3.0	2.3	3.0	6.9	10.7	66.4	33.6	100.64	43.20	
11	Maharashtra	26.0	4.8	6.4	2.9	5.2	5.3	3.3	3.7	3.7	2.9	8.2	11.2	61.2	38.8	110.94	42.22	
12	Manipur	45.0	3.0	6.1	2.2	2.1	0.9	9.0	0.9	2.1	4.2	7.3	6.9	10.2	28.7	131.52	1.08	
13	Orissa	50.7	2.1	6.9	2.0	2.7	1.5	3.3	1.6	2.8	2.6	7.5	6.5	9.9	26.4	98.86	24.58	
14	Punjab	14.6	3.0	5.1	2.0	3.5	18.2	1.0	6.3	4.9	2.3	6.8	14.3	58.7	41.3	170.64	12.50	
15	Rajasthan	24.5	2.4	3.2	2.4	3.6	16.5	0.8	4.7	2.6	3.0	6.2	13.9	60.7	39.3	127.17	28.47	
16	Tamil Nadu	35.0	3.4	5.5	3.7	3.3	3.3	3.7	1.6	5.3	3.4	6.8	7.7	17.3	35.2	112.55	33.40	
17	Uttar Pradesh	29.7	7.7	6.0	2.3	4.5	9.5	1.7	3.2	1.7	2.4	7.8	10.9	15.6	36.7	104.55	94.14	
18	West Bengal	45.1	2.0	7.7	2.1	4.0	3.5	5.4	1.7	2.5	2.4	6.2	6.2	11.2	26.1	104.65	41.79	
19	Delhi	11.0	2.2	6.7	1.5	3.2	22.5	1.7	2.8	3.3	2.7	6.3	12.1	24.1	45.1	217.23	0.43	
20	Tripura	35.5	2.2	7.2	2.3	3.8	4.6	10.0	1.6	3.1	4.3	5.3	7.6	12.5	29.7	127.11	1.95	
21	All India	31.6	3.5	6.1	2.5	4.0	8.0	3.0	3.2	3.4	3.0	7.0	9.7	65.2	34.8	112.58	541.31	
CV*		35.2	31.5	21.2	25.2	30.9	79.0	78.0	52.8	41.8	25.6	14.1	27.4	18.5	16.3	23.0	86.7	

Source: B S Minhas, L R Jain and S D Tendulkar, 'Rural and Urban Cost of Living, 1983 to 1987-88: State-wise and All-India', Journal of Indian School of Political Economy, Vol III, No 3, July-September 1991.

Table 8(B): Statewise Percentage Shares of Groups of Consumer Items in Total Consumer Expenditure for Urban Population, 1983

Table 6 (a) Per Cent Consumption of Various Commodities in Different States																						
Sl No	State	Cereals and Pds	Pulses and Pds	Fruits and Vgs	Spices and Salt	Oils and Fats	Milk and Prods	Meat and Fish and Eggs	Other Food and Cnts, Etc	Fuel and Light	Clothing, Etc	Housing, Etc	Medical Care	Eda Tpt and Comm Recn	Per-sonal	Other Non-Food	Total Food	Total Non-Food	MPC T-Exp (Rs)	Popu-lation (Mls)		
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)	(18)	(19)	(20)	(21)	(22)	
1	Andhra Pradesh	19.66	3.14	5.41	2.60	4.26	6.52	4.34	7.65	2.92	6.00	9.67	4.91	3.96	4.42	3.07	4.42	7.03	53.6	46.4	161.37	13.61
2	Assam	28.99	2.57	6.42	1.39	3.83	5.84	6.98	7.87	2.77	7.18	5.41	3.81	2.52	5.36	1.90	3.41	3.75	63.9	36.1	160.12	2.24
3	Bihar	31.83	3.27	6.95	1.63	4.47	6.20	3.70	6.86	2.14	6.29	8.57	2.40	2.69	3.19	1.73	1.87	6.19	64.9	35.1	141.92	9.65
4	Gujarat	15.00	3.78	7.97	1.94	7.96	12.31	1.38	9.20	1.95	6.75	8.04	3.50	4.22	4.02	2.27	2.77	6.93	59.5	40.4	169.51	11.38
5	Haryana	14.02	2.74	7.52	1.75	4.42	16.55	0.96	8.30	1.93	6.56	10.48	2.55	3.64	5.19	3.38	2.49	7.52	56.3	43.7	191.70	3.17
6	Himachal Pradesh	12.99	2.74	5.77	1.54	4.05	13.07	1.89	9.93	3.06	7.05	12.87	3.95	1.72	5.93	3.72	2.96	6.71	52.0	48.0	269.19	0.34
7	Jammu and Kashmir	22.00	2.13	5.90	2.42	6.06	12.77	5.48	6.37	3.40	9.28	7.32	1.38	3.55	3.21	2.00	2.85	3.87	63.1	36.9	157.47	1.36
8	Karnataka	19.38	3.39	6.40	2.40	3.53	6.69	3.20	10.44	2.58	6.82	9.37	4.66	2.62	4.54	3.70	3.70	6.64	55.4	44.6	174.28	11.74
9	Kerala	19.74	1.68	8.21	2.17	2.80	5.02	6.46	12.15	2.35	5.69	8.92	1.93	4.90	3.85	3.15	3.56	7.43	58.2	41.8	179.74	5.15
10	Madhya Pradesh	21.13	4.24	6.57	1.97	5.32	9.14	1.76	8.38	2.62	7.03	8.41	3.05	2.56	2.95	2.10	2.32	10.44	58.5	41.5	149.38	11.72
11	Maharashtra	14.77	3.40	7.45	1.92	5.53	9.64	3.29	9.82	1.86	6.76	7.91	3.99	3.52	4.91	4.09	2.98	8.13	55.8	44.1	191.96	23.73
12	Meghalaya	17.96	1.82	7.84	1.04	3.46	5.19	8.72	8.09	5.46	5.49	6.97	6.23	3.23	6.88	2.44	4.39	4.83	54.1	45.9	243.03	0.27
13	Orissa	30.86	2.79	7.53	1.90	3.81	3.93	4.62	8.36	2.44	6.74	8.46	2.34	2.16	3.07	1.58	2.36	7.06	63.8	36.2	155.03	3.51
14	Punjab	11.83	2.66	6.58	1.80	4.62	15.21	1.29	10.22	2.09	7.47	8.77	2.87	4.11	5.05	3.38	2.99	9.05	54.2	45.8	190.66	5.04
15	Rajasthan	16.56	2.43	5.33	2.18	5.23	14.47	1.47	8.62	2.67	6.60	11.42	2.23	3.59	3.49	3.49	2.52	7.70	56.3	43.7	163.54	8.90
16	Tamil Nadu	22.38	3.01	5.74	2.61	3.26	5.71	3.39	9.21	2.08	6.17	7.47	5.34	3.12	4.56	3.26	5.15	7.54	55.3	44.7	172.93	16.99
17	Uttar Pradesh	19.50	3.82	6.62	2.00	4.89	10.87	2.65	7.60	2.55	7.89	7.99	2.80	5.58	4.49	2.09	2.72	5.93	57.9	42.0	139.35	22.17
18	West Bengal	21.35	2.00	7.35	1.62	4.10	6.01	7.19	8.92	2.68	6.54	7.31	3.77	2.74	4.57	2.93	2.56	8.37	58.5	41.5	176.56	15.31
19	Delhi	9.35	2.73	8.55	1.85	4.09	13.05	2.36	9.01	2.14	5.85	8.38	4.63	2.98	5.56	5.62	2.80	10.45	51.6	48.4	239.90	6.36
20	Chandigarh	7.63	2.04	7.54	1.11	4.04	11.24	1.08	11.26	0.98	4.75	9.93	8.12	2.73	8.45	6.62	2.08	10.40	45.9	54.1	313.72	0.36
21	All India	18.86	3.11	6.85	2.04	4.71	9.04	3.41	8.94	2.34	6.68	8.41	3.72	3.54	4.41	3.14	3.15	7.43	57.0	43.0	170.24	172.11
CV*		34.7	26.0	13.8	23.1	25.3	41.5	63.9	16.0	34.0	14.3	28.2	29.0	40.8	26.4	8.2	10.9	24.3	8.2	10.9	24.3	82.1

Source: Same as for Table 8(A). * Coefficient of Variation for States (computed by us).

Table 9(A): Annual Rates of Increase in Commodity Group-Specific Rural Consumer Price Indices over Period from 1983 to 1988-89

Table A-9: Nutrient Status of States in Comparative Group - 1 (Food and Nutrient Consumption Data for 1980-81)																	
Sl No	State	Cereals and Pnds	Pulses and Pnds	Fruits and Veg	Spices and Salt	Ed Oils and Fats	Milk and Prods	Meat and Fish	Sugar and Gnr	Other Food	Intoxi- cants, Etc	Fuel and Light	Clothing, Etc	Other Non-Food	Total Food	Total Non-Food	All Items
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)	(18)
1	Andhra Pradesh	4.3	10.0	5.8	23.4	5.5	7.7	10.6	7.8	6.7	8.7	7.6	7.1	11.7	7.2	9.1	7.8
2	Assam	5.3	11.4	6.0	10.6	7.5	10.2	11.4	7.2	8.2	7.8	6.4	8.4	9.7	7.2	7.9	7.4
3	Bihar	3.5	11.6	4.3	15.0	5.3	9.5	9.3	8.3	5.4	10.5	4.1	7.6	11.8	5.3	8.3	6.1
4	Gujarat	3.1	11.0	5.3	16.5	6.0	10.4	10.3	7.4	6.1	10.1	6.5	7.1	9.0	6.9	8.0	7.2
5	Haryana	7.8	15.1	3.6	15.1	8.4	8.4	11.0	9.2	4.7	6.9	7.1	4.8	11.0	8.4	7.9	8.3
6	Himachal Pradesh	7.8	15.1	3.6	15.1	8.4	8.4	11.0	9.2	4.7	6.9	7.1	4.8	11.0	8.4	7.6	8.3
7	Jammu and Kashmir	6.0	13.4	5.0	12.7	6.5	8.6	9.6	6.8	6.3	7.4	8.9	4.9	9.1	7.1	7.9	7.3
8	Karnataka	3.6	10.2	7.9	24.3	6.7	6.2	9.7	7.4	7.9	11.3	8.1	5.5	11.7	6.8	9.1	7.6
9	Kerala	5.9	11.4	8.3	13.4	7.7	6.5	15.9	7.3	6.3	9.7	7.5	5.1	9.7	8.1	8.6	8.3
10	Madhya Pradesh	5.8	11.7	4.4	17.8	5.6	10.5	11.1	7.8	8.0	8.4	7.2	6.7	12.2	7.5	8.8	7.9
11	Maharashtra	4.7	11.2	3.6	19.6	5.6	6.5	9.8	8.0	6.0	9.5	8.0	5.7	10.3	6.9	8.2	7.3
12	Manipur	5.3	11.4	6.0	10.6	7.5	10.2	11.4	7.2	8.2	7.8	6.4	8.4	9.7	7.0	7.9	7.3
13	Orissa	1.3	13.8	6.4	17.4	6.4	6.8	9.1	8.7	3.7	10.2	6.9	6.8	15.2	3.6	9.7	5.2
14	Punjab	7.8	15.1	3.6	15.1	8.4	8.4	11.0	9.2	4.7	6.9	7.1	4.8	11.0	8.5	7.9	8.3
15	Rajasthan	6.1	17.8	1.9	15.8	5.6	10.0	11.9	9.3	5.1	10.4	7.4	7.0	13.1	8.2	9.6	8.7
16	Tamil Nadu	1.0	8.5	7.8	21.6	5.5	8.2	10.8	7.4	6.5	10.4	7.9	6.3	9.6	4.8	8.5	5.8
17	Uttar Pradesh	6.4	10.0	1.7	14.9	5.1	8.5	10.2	10.3	8.7	8.4	7.9	6.8	11.1	7.0	8.9	7.4
18	West Bengal	2.5	12.3	7.4	13.3	5.9	8.3	7.7	8.8	9.1	10.3	4.3	5.7	11.0	6.4	7.9	6.9
19	Delhi	7.8	15.1	3.6	15.1	8.4	8.4	11.0	9.2	4.7	6.9	7.6	4.8	9.7	8.0	8.2	8.2
20	Tripura	5.3	11.4	6.0	10.6	7.5	10.2	11.4	7.2	8.2	7.8	8.2	8.4	9.7	7.4	8.8	7.8
21	All India	4.6	11.5	5.2	17.6	6.2	9.1	10.9	8.0	6.6	9.1	7.3	6.8	10.98	6.8	8.6	7.4
22	Mean (ARI)	5.1	12.4	5.1	15.9	6.7	8.6	10.7	8.2	6.5	8.8	7.1	6.3	10.9	7.1	8.4	7.5
CV%		40.0	18.2	36.5	24.0	17.3	15.8	14.5	11.8	24.1	16.4	16.3	19.7	13.3	17.7	7.1	11.8

Note: Mean (ARI) refers to simple average (across states) of the state-specific annual rates of increase.

Source: SD Tendulkar and L.R. Jain, 'An Analysis of Inter-State and Inter-Commodity Group Rural-Urban Consumer Price Indices in India, 1983 to 1988-89', *Journal of Indian School of Political Economy*, Vol. V, No. 2, April-June 1993.

Table 9(B): Annual Rates of Increase in Commodity Group-Specific Urban Consumer Price Indices over Period from 1983 to 1988-89

Table 9(B): Annual Rates of Increase in Commodity Group-Specific Urban Consumer Price Indices over Period from 1963 to 1968-69																					
Sl No	State	Cereals and Prods	Pulses and Prods	Fruits and Veggies	Spices and Etc	Oils and Fats	Milk and Prods	Meat, Fish and Eggs	Other Food	Intoxi- cants, Etc	Fuel and Light	Clo- thing, Etc	Hous- ing	Medi- cal Care	Eda and Recn	Tpt and Coma	Per- sonal	Other Non-Food	Total Food	Total Non-Food	All Items
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)	(18)	(19)	(20)	(21)	
1	Andhra Pradesh	8.1	10.8	6.5	14.5	7.0	8.6	9.4	8.9	12.0	6.9	5.8	13.2	7.2	5.1	8.7	8.1	8.8	8.8	8.5	8.7
2	Assam	4.3	9.4	8.9	9.1	7.1	9.8	9.3	8.5	12.7	6.1	5.5	16.1	4.8	15.7	5.5	10.1	9.9	7.3	8.9	7.9
3	Bihar	4.4	11.3	8.3	11.2	7.5	9.0	9.5	8.3	11.1	9.0	7.6	11.7	7.7	5.9	7.0	8.8	9.4	7.1	8.8	7.7
4	Gujarat	5.5	11.8	6.7	11.1	6.4	11.2	10.8	5.8	11.1	8.2	5.6	6.0	8.5	2.9	8.7	8.3	9.0	7.8	7.8	7.8
5	Haryana	5.0	13.7	6.7	7.6	8.9	8.4	10.8	6.8	12.4	4.8	4.0	11.7	6.3	6.6	8.0	7.9	9.0	7.5	7.0	7.3
6	Himachal Pradesh	5.8	14.5	8.1	10.4	8.4	8.5	6.8	9.4	10.7	5.4	8.3	7.0	5.7	9.4	7.9	7.9	10.1	8.3	8.0	8.2
7	Jammu and Kashmir	7.2	14.3	10.1	10.6	6.9	9.0	10.1	9.2	10.9	6.2	6.4	7.3	10.3	2.4	8.8	9.7	10.7	8.6	7.7	8.4
8	Karnataka	6.5	13.7	7.1	17.4	9.5	7.9	9.0	9.7	9.1	7.4	5.3	20.1	6.5	4.9	8.4	8.4	10.0	8.9	8.9	8.9
9	Kerala	3.6	11.7	6.5	13.4	11.6	6.6	12.5	7.5	10.0	6.5	4.8	10.2	6.7	9.1	6.9	8.9	7.5	7.2	7.3	7.2
10	Madhya Pradesh	7.0	11.8	7.9	13.7	6.4	8.9	9.9	8.3	11.0	9.3	6.1	12.6	8.1	3.2	6.8	8.5	9.5	8.4	8.8	8.5
11	Maharashtra	6.1	11.4	8.1	15.8	7.1	7.3	10.2	8.3	10.5	8.1	5.6	9.1	6.7	3.3	7.4	9.1	9.9	8.1	8.0	8.1
12	Meghalaya	5.1	12.7	11.8	13.4	6.6	8.4	11.5	8.2	11.0	5.7	7.7	14.5	7.9	5.0	6.5	8.0	7.6	8.4	7.9	8.2
13	Orissa	3.0	10.5	6.5	10.2	6.9	5.4	8.2	6.3	9.6	9.6	4.8	12.5	5.5	4.9	8.4	6.5	8.3	5.5	8.0	6.4
14	Punjab	6.7	14.0	7.3	8.0	8.9	8.3	9.8	7.4	10.2	8.0	4.6	7.1	7.4	3.4	7.5	8.0	8.0	8.0	7.2	7.7
15	Rajasthan	7.3	14.8	8.1	11.9	7.1	10.3	12.1	9.3	9.6	6.1	6.1	9.3	7.6	4.7	9.5	7.9	10.1	9.2	8.0	8.7
16	Tamil Nadu	4.4	11.2	6.8	15.2	8.0	8.5	10.2	9.2	10.8	14.3	7.3	11.6	5.7	7.2	5.6	10.7	10.3	7.4	10.4	8.3
17	Uttar Pradesh	6.6	11.3	8.7	11.5	6.8	8.3	9.4	7.7	11.2	7.6	6.1	8.1	6.3	3.9	8.5	8.7	8.9	8.1	7.6	7.8
18	West Bengal	3.7	12.6	10.0	9.7	7.2	9.7	9.6	9.2	10.4	8.3	6.1	16.0	7.2	7.4	7.5	8.9	9.4	7.9	9.1	8.4
19	Delhi	6.8	13.8	9.4	14.5	9.0	10.7	11.4	9.9	10.8	4.5	6.4	10.5	4.0	3.7	10.2	8.5	11.8	9.9	8.4	9.2
20	Chandigarh	6.5	15.7	8.6	16.2	9.8	10.4	9.8	16.0	7.1	3.7	6.7	7.5	7.2	12.1	10.0	7.0	10.3	10.9	8.2	9.8
21	All India	5.7	11.9	7.9	13.6	7.4	8.9	9.9	8.5	10.7	8.4	6.0	11.8	6.9	5.1	7.8	8.9	9.5	8.0	8.5	8.2
22	Mean (ARI)	5.7	12.5	8.1	12.3	7.9	8.8	10.0	8.7	10.6	7.3	6.0	11.1	6.9	6.0	7.9	8.5	9.4	8.2	8.2	8.2
CV%		24.6	13.8	17.3	22.1	17.1	15.4	12.7	23.8	11.1	30.9	17.9	32.2	19.7	54.3	15.9	11.0	11.1	13.3	9.4	9.4

Deutsche Bank AG



(Incorporated in Germany with Limited Liability)

BALANCE SHEET OF INDIAN BRANCHES AS AT 31ST MARCH 1993

PROFIT AND LOSS ACCOUNT OF INDIAN BRANCHES FOR THE YEAR ENDED 31ST MARCH 1993

(Rs. in thousands)			(Rs. in thousands)		
Schedule	As on 31.03.93	As on 31.03.92	Schedule	Year ended 31.03.93	Year ended 31.03.92
CAPITAL AND LIABILITIES			I. INCOME		
Capital	1	2,000	Interest earned	13	1,130,819
Reserves and Surplus	2	749,794	Other Income	14	233,048
Deposits	3	4,979,407			
Borrowings	4	1,509,211	TOTAL		1,363,867
Other Liabilities and Provisions	5	988,876			888,467
TOTAL		8,229,288			
		5,640,164	II. EXPENDITURE		
ASSETS			Interest expended	15	669,446
Cash and balances with Reserve Bank of India	6	638,056	Operating Expenses	16	198,856
Balances with Banks and money at call and short notice	7	172,324	Provisions and contingencies		493,339
Investments	8	2,343,340	TOTAL		1,361,641
Advances	9	4,375,607			733,707
Fixed Assets	10	151,684	III. PROFIT		
Other Assets	11	548,277	1. Net Profit for the year		2,226
TOTAL		8,229,288	2. Profit Brought Forward		123,808
		5,640,164	TOTAL		126,034
					208,169
Contingent Liabilities			IV. APPROPRIATIONS		
Bills for Collections	12	25,291,406	Transfer to statutory reserves		434
		1,076,166	Transfer to Capital Reserve		54
			Transfer to head office accounts		123,808
			Balance carried over to Balance Sheet		1,738
			TOTAL		126,034
					208,169

Per our attached report
For N.M. RAJJI & COMPANY
Chartered Accountants

Sd/-
A. R. GANDHI
Partner

Bombay, 27th July 1993

For Deutsche Bank
Sd/-
H. SINGH
Chief Executive Officer (India)

Sd/-
L. MAKHIJA
Controller

Deutsche Bank AG



(Incorporated in Germany with Limited Liability)

SCHEDULES FORMING PART OF THE BALANCE SHEET AS ON 31ST MARCH 1993

(Rs. in thousands)			(Rs. in thousands)		
	As on 31.03.93	As on 31.03.92		As on 31.03.93	As on 31.03.92
Schedule 1—Capital			Schedule 4—Borrowings		
(A) Face value of securities deposited with the Reserve Bank of India under sub-section (2) of Section II of the Banking Regulation Act, 1949	61,000	30,000	I. Borrowings in India		
(B) Amount brought into India by way of start-up capital	2,000	2,000	(i) Reserve Bank of India	1,465,700	1,047,200
TOTAL	2,000	2,000	(ii) Other banks	58	—
Schedule 2—Reserves and Surplus			(iii) Other institutions and agencies	20,000	20,000
I. Statutory Reserves (Reserve under Sec.II(2)(b)(ii) of Banking Regulation Act, 1949)			II. Borrowings Outside India	23,453	61,001
(i) Opening Balance	53,159	22,207	TOTAL	1,509,211	1,128,201
(ii) Additions during the year	434	30,952	Schedule 5—Other Liabilities and Provisions		
	53,594	53,159	I. Bills Payable	307,592	186,613
II. Capital Reserves			II. Inter-office adjustments		
(i) Opening Balance	—	—	(a) In India (net)	36,587	43,691
(ii) Additions during the year	54	—	(b) Outside India (net)	410,358	130,476
	54	—	III. Interest Accrued	124,962	77,534
III. Revenue and Other Reserves			IV. Others (including provisions)	109,377	287,807
Head office Reserve (See note 2)			TOTAL	988,876	726,121
(i) Opening Balance	91,977	88,476	Schedule 6—Cash and Balances with Reserve Bank of India		
(ii) Additions during the year	602,431	3,501	I. Cash in hand	4,993	3,560
	694,408	91,977	II. Balances with Reserve Bank of India		
IV. Balance of Profit	1,738	123,808	(i) In Current Account	633,063	174,895
TOTAL	749,794	268,944	TOTAL	638,056	178,455
Schedule 3—Deposits			Schedule 7—Balances with Banks and Money at Call and Short Notice		
A. I. Demand Deposits			I. In India		
(i) From Banks	921,167	501,608	(i) Balances with banks in India		
(ii) From Others	973,248	788,306	In Current Accounts	154,082	166,696
II. Savings Bank Deposits	123,045	83,244	(ii) Money at call and short notice with banks	—	300,000
III. Term Deposits				154,082	466,696
(i) From Banks	212,433	51,127	II. Outside India		
(ii) From Others	2,749,514	2,090,613	In Current Accounts	18,242	10,853
TOTAL	4,979,407	3,514,898		18,242	10,853
B. Deposits of branches in India	4,979,407	3,514,898	TOTAL	172,324	477,549
	4,979,407	3,514,898			

Deutsche Bank AG



(Incorporated in Germany with Limited Liability)

SCHEDULES FORMING PART OF THE BALANCE SHEET AS ON 31ST MARCH 1993

(Rs. in thousands)			(Rs. in thousands)		
	As on 31.03.93	As on 31.03.92		As on 31.03.93	As on 31.03.92
Schedule 8—Investments			Schedule 10—Fixed Assets		
I. Investments in India			I. Premises		
(i) Government Securities	1,205,992	877,348	(i) At cost as at 31st March*	112,391	29,053
(ii) Other approved securities	19,033	1,114	(ii) Additions during the year	11,037	83,338
(Market value TRs. 1,224,330 (31st March 1992 TRs. 879,862))	1,225,025	878,462	(iii) Deductions during the year	—	—
(iii) Shares	361	361	(iv) Depreciation to date	(3,989)	(3,199)
(iv) Debentures and Bonds	155,760	755		119,439	109,192
(v) Investments in associated company	3,000	3,000	* includes capital work in progress TRs. 83,833 (31st March 1992 TRs. 83,833)		
(vi) Others			II. Other Fixed Assets		
(a) Units of Unit Trust of India (Repurchase price TRs. 962,491 (31st March 1992 TRs. 604,106))	959,194	599,204	(i) At cost as at 31st March	68,625	43,831
(b) Commercial paper	—	27,517	(ii) Additions during the year	6,634	25,053
TOTAL	2,343,340	1,509,299	(iii) Deductions during the year	(47)	(259)
			(iv) Depreciation to date	(42,967)	(28,901)
Schedule 9—Advances			TOTAL	32,245	39,724
A. (i) Bills purchased and discounted	855,375	478,004		151,684	148,916
(ii) Cash credits, overdrafts and loans repayable on demand	2,873,387	2,396,215	Schedule 11—Other Assets		
(iii) Term loans	646,845	231,929	I. Interest accrued	104,176	52,335
TOTAL	4,375,607	3,106,148	II. Tax paid in advance/tax deducted at source	209,137	32,191
B. (i) Secured by tangible assets*	2,191,607	1,624,145	III. Stationery and stamps	1,107	16
(ii) Covered by Bank/ Government guarantees	238,832	308,423	IV. Others	233,857	135,255
(iii) Unsecured	1,945,168	1,173,580	TOTAL	548,277	219,797
	4,375,607	3,106,148			
C. I. Advances in India			Schedule 12—Contingent Liabilities		
(i) Priority Sectors	112,195	229,349	I. Liability on account of outstanding forward exchange contracts	17,499,411	9,613,202
(ii) Public Sector	—	123,555	II. Guarantees given on behalf of constituents		
(iii) Banks	15	25	(a) In India	3,592,001	2,588,458
(iv) Others	4,263,397	2,753,219	(b) Outside India	538,940	230,073
	4,375,607	3,106,148	III. Acceptances, endorsements and other obligations	2,459,612	3,318,758
			IV. Other items for which the bank is contingently liable	1,201,442	2,723,240
			TOTAL	25,291,406	18,473,731

* includes loans TRs. 115,843 in respect of which security is pending creation

Deutsche Bank AG



(Incorporated in Germany with Limited Liability)

SCHEDULES FORMING PART OF THE PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31ST MARCH 1993

(Rs. in thousands)			(Rs. in thousands)		
	Year ended 31.03.93	Year ended 31.03.92		Year ended 31.03.93	Year ended 31.03.92
Schedule 13—Interest Earned			Schedule 16—Other Operating Expenses		
I. Interest/discount on advances/bills	744,260	442,309	I. Payments to and provisions for employees	34,748	31,257
II. Income on investments	315,320	95,058	II. Rent, taxes and lighting	18,042	19,603
III. Interest on balances with Reserve Bank of India and other inter-bank funds	52,367	115,722	III. Printing and stationery	3,594	3,375
IV. Others	18,872	11,893	IV. Advertisement and publicity	113	6,279
TOTAL	1,130,819	664,982	V. Depreciation on bank's property	15,412	10,345
Schedule 14—Other Income			VI. Directors' fees, allowances and expenses	138	94
I. Commission, exchange and brokerage	141,114	62,101	VII. Auditors' fees and expenses (including branch auditors' fees and expenses)	145	95
II. Net profit (net loss) on sale of investments	(82,035)	28,066	VIII. Law charges	606	273
III. Net profit on sale of land, buildings and other assets	-	23	IX. Postages, Telegrams, Telephones etc.	9,499	5,255
IV. Net profit on exchange transactions	172,142	99,514	X. Repairs and maintenance	11,169	7,084
V. Income earned by way of dividends etc. from subsidiaries, companies, joint ventures set-up abroad/in India	-	114	XI. Insurance	2,920	2,115
VI. Miscellaneous Income	1,827	33,667	XII. Other expenditure (Includes TRs. 85,086 (1991-92 TRs. 85,165) being head office expenses)	102,470	98,098
TOTAL	233,048	223,485	TOTAL	198,856	183,873
Schedule 15—Interest Expended					
I. Interest on deposits	329,859	200,369			
II. Interest on Reserve Bank of India/inter-bank borrowings	261,611	94,684			
III. Others	77,976	53			
TOTAL	669,446	295,106			

Notes forming Part of the Accounts for the Year ended 31st March 1993

1. Principal Accounting Policies

A) General:

These accounts have been prepared according to the historical cost convention and in accordance with statutory requirements prescribed under the Banking Regulation Act, 1949 and practices prevailing in the country.

B) Transactions Involving Foreign Exchange:

- Foreign currency assets and liabilities are translated on the Balance Sheet date at the rates notified by FEDAI, except Foreign Currency Non-Resident Account balances which are valued at the relevant rates specified by the Reserve Bank of India.
- Contingent liabilities on account of outstanding foreign exchange contracts have been reported at the contracted rates; however, outstanding foreign exchange contracts have been revalued on the Balance Sheet date at the rates notified by FEDAI and the resulting losses/profits on revaluation have been included in the Profit and Loss account.

C) Investments:

Trade investments are valued at cost or market value whichever is lower. Permanent investments are valued at cost unless it is more than the face value in which case the premium has been amortized over the period remaining for the maturity of the security.

D) Advances:

- Provision for doubtful advances: The Management reviews the advances/loan portfolio each year in addition to periodic reviews and based on their judgement sets aside specific provision for doubtful advances. The provision made duly consider the provisioning norms instructed by Reserve Bank of India. The provision for doubtful advances is made to the satisfaction of the auditors after considering present value of realisable security held by the Bank in respect of such advances.
- Advances are stated net of bills of exchange rediscounted and specific provision in respect of doubtful debts.

Deutsche Bank AG



(Incorporated in Germany with Limited Liability)

- E) Premises, Furniture and Fixtures, etc.:
Premises, furniture and fixtures including vehicles and equipment have been valued at cost less depreciation. Depreciation is provided from the year in which the asset is ready for use. Depreciation has been provided on straight line method at the rates specified by Head Office which are higher than the rates prescribed under Schedule XIV to the Companies Act, 1956.
- F) Income Recognition:
i) Interest Income is recognised on accrual basis and in the case of non-performing advances the same is recognised on recovery and settlement.
ii) Commission and fees are treated on accrual basis except commission on Letters of Credit and Guarantees which is fully accounted as income on execution.
- G) Staff Benefits:
Liabilities in respect of retiral benefits to employees are provided for by payments to duly recognised Gratuity Fund, Pension Fund and Provident Fund. The amounts of payment to the Funds except for Provident Fund are determined on the basis of actuarial valuation.
- H) Net Profit:
The net profit disclosed in the profit and loss account is after:
i) Provision for taxes on income in accordance with statutory requirements.
ii) Provision for doubtful advances.
iii) Adjustments so as to value trade investments at lower of cost and market value.
iv) Other usual and necessary provisions.
2. Head Office Reserve Account:
Head Office Reserve Account represents funds remitted by Head Office and a portion of approved remittable surplus for an earlier year retained by the Bank, to meet the cost of acquisition of residential and bank premises at Bombay and to meet the deposits/advance rent of bank premises at Delhi as per the Reserve Bank of India's guidelines.
3. In accordance with Reserve Bank of India guidelines for income recognition and provisioning the bank has changed its accounting policy in respect of:
i) Unrealised forex forward gains have been recognised as income. Consequently, profit for the year is higher by TRs. 119463.
ii) Depreciation on permanent investments has been provided only if cost is higher than the face value. Consequently, profit for the year is higher by TRs. 1135.
4. In accordance with generally accepted accounting practice, guarantee commission income has been recognised on execution basis. Hitherto, such income was recognised over the life of the guarantee. Consequently, profit for the year is higher by TRs. 19567.
5. The previous year's figures have been regrouped/rearranged wherever necessary.

Per our attached report
For N. M. RAJJI & COMPANY
Chartered Accountants

Sd/-
(A. R. GANDHI)
Partner
Bombay, 27th July 1993

Sd/-
H. SINGH
Chief Executive Officer (India)

Sd/-
L. MAKHLJA
Controller

Auditors' Report on the Accounts of the Indian Branches of Deutsche Bank AG

We have audited the attached Balance Sheet of the Indian branches of Deutsche Bank AG (Incorporated in Germany with limited liability), as at 31st March 1993 and the Profit and Loss Account of the Indian branches of the Bank for the year ended 31st March 1993 annexed thereto. In accordance with the provisions of Section 29 of the Banking Regulation Act, 1949, read with the provisions of sub-sections (1), (2) and (5) of Section 211 and sub-section (5) of Section 227 of the Companies Act, 1956, the Balance Sheet and Profit and Loss Account together with the notes thereon are not required to be and are not drawn up in accordance with Schedule VI of the Companies Act, 1956. The accounts are therefore drawn up in conformity with Forms 'A' and 'B' of the Third Schedule of the Banking Regulation Act, 1949.

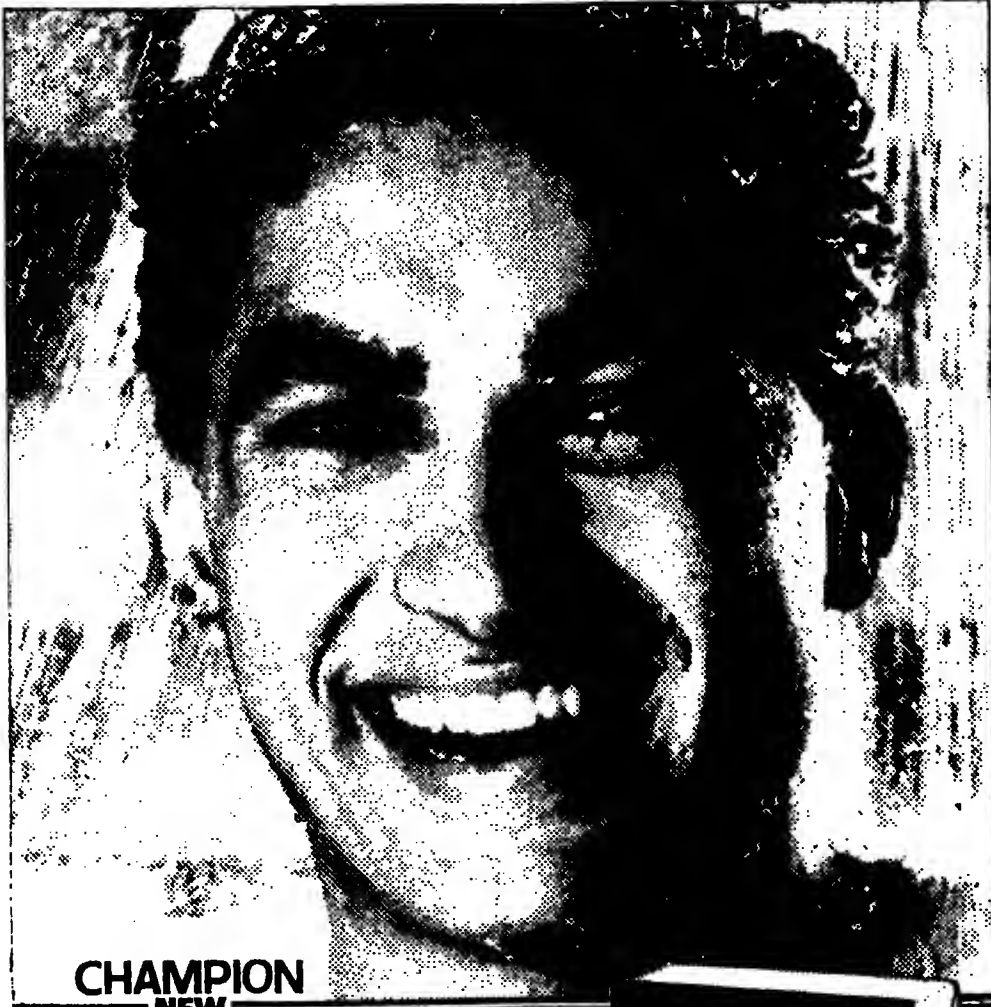
- a) The Bombay and New Delhi branches of the Bank have provided services to clients under a Safe Custody Agreement whereunder the Bank was appointed as the custodian of the investments, including securities and bills, of the clients. The service fee or commission paid to the Bank including the safe custody charge has been at varying rates for such services. These transactions have been reported in the Fifth Report of the Janakiraman Committee as constituting a Portfolio Management Scheme not permissible within the guidelines prescribed by the Reserve Bank of India. The Bank has explained to the Reserve Bank of India its understanding of these transactions. However, we are unable to express an opinion on the true nature of the aforesaid services and to state the effect on the Bank of the treatment of these services as Portfolio Management Services.
- b) As per the Bank's normal practice, the day books and related external documents pertaining to the bills discounting transactions, which were settled before commencement of our audit of bills discounting transactions, were not retained. Therefore, these transactions have been verified with reference to only the monthly outstandings statements, the settled bills report and internal checking done by the bank as evidenced on the records. Although it has been represented to us by the Management that it is the generally followed practice by banks to return the external documents to clients on settlement of bills discounted, in our opinion, retention of the aforesaid records of bills discounting transactions for audit purposes is necessary. We have also relied upon the Management's representation that the bank has generally complied with the applicable guidelines of the Reserve Bank of India in respect of the bills discounting transactions.

Subject to our observations in paragraphs a) and b) foregoing, we report that:

1. We have obtained all the information and explanation which, in our opinion and to the best of our knowledge and belief, were necessary for the purposes of the audit and have found them to be satisfactory;
2. the transactions which have come to our notice have been, in our opinion, within the powers of the Indian branches of the Bank, except that, the Bank has entered into few ready forward transactions in public sector bonds/UTI units with parties other than banking companies. The bank has also provided loans to investment companies beyond the basis contained in the guidelines issued by the Reserve Bank of India in respect of such lending. However, the bank has taken necessary steps to comply with the relevant guidelines;
3. in our opinion, proper books of account as required by law have been kept by the Indian branches of the Bank so far as appears from our examination of these books;
4. the Balance Sheet and Profit and Loss Account dealt with by this report are in agreement with the books of account;
5. in our opinion and to the best of our information and according to the explanations given to us, the accounts together with the notes thereon give the information required by the Companies Act, 1956, in the manner so required for banking companies and, on such basis, the Balance Sheet gives a true and fair view of the state of affairs of the Indian branches of the Bank as on 31st March 1993 and the Profit and Loss Account gives a true and fair view of the profit of the Indian branches of the Bank for the year ended on that date.

For N. M. RAJJI & COMPANY,
Chartered Accountants
Sd/-
(A. R. GANDHI)
Partner

Bombay, 27th July, 1993



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ECONOMIC AND POLITICAL

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REVIEW OF AGRICULTURE

■ AGRICULTURE AND RURAL DEVELOPMENT IN 1990s AND BEYOND

■ LIMITS OF CREDIT, NOT CREDIT LIMITS

■ POLITICS AS RELIGION: CONSTITUTION AMENDMENT BILL

■ SAVING, INVESTMENT, BANKING POLICY AND INTEREST RATES

**■ DISTRIBUTION OF LIFT IRRIGATION
BY HYDRO-GEOLOGICAL REGIONS**

■ CHAUDHURI CHARAN SINGH: AN INDIAN POLITICAL LIFE

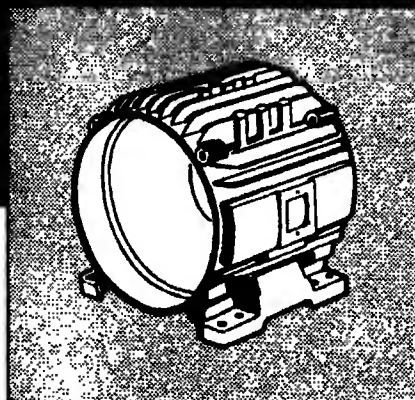
**■ DALITS AND NON-BRAHMIN CONSCIOUSNESS
IN COLONIAL TAMIL NADU**

■ INTER-SECTORAL TERMS OF TRADE: CONCEPT AND METHOD

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ISSUE HIGHLIGHTS

- Export oriented unit for manufacture of Ferrous and Non-Ferrous castings • Equipment supply Technology Transfer and Equity participation agreement with VULCAN ENGINEERING COMPANY, U.S.A. • Capital Goods imports at concessional rate of duty of 15% — imports proposed under EPCG Scheme in terms of Para 38 of EXIM Policy, April-March 1992-97. • MOUs entered into for export of Castings with various overseas buyers. However, final agreement to be entered into after commercial production • Contract signed and advance payment made for supply of main Plant & Machinery to ensure scheduled commissioning and commercial production. • Indigenous availability of raw materials. • Process is environment friendly • Project located in category 'B' backward area — Eligible for fiscal incentives and tax concessions • Listing on Bombay, Ahmedabad and Delhi Stock Exchanges

ALEXCON EXTRUSIONS LTD (AEL) PROMISE V/S PERFORMANCE

Although AEL had estimated its project cost at Rs.888.27 lakhs, the actual cost went up to Rs.1255.70 lakhs. The escalation was financed by amount retained out of oversubscription in public issue, DPG from Union Bank and unsecured loans from Promoters

AEL estimated commercial production to commence in December 1991. However, owing to delay in import of certain auxiliary and quality control equipments on account of Govt. restrictions on capital imports, the Company could commence commercial production only in February 1993.

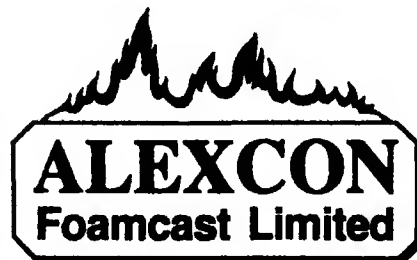
The change in the product mix, mainly the requirement of Micro Multi Void also necessitated stabilisation of process parameters to manufacture more of Micro Multi Void

RISK FACTORS

- Project is not yet appraised by any Financial

Institutions. The cost of the project is based on the estimates of the promoters. An application has already been made to IDBI seeking appraisal of the Project and sanction of Term Loan. • Although the object of the issue is to part-finance the estimated cost of the project, pending appraisal of project by Financial Institutions and sanction of term loans, the proceeds of the present issue is proposed to be utilised for meeting expenditure relating to the project such as acquisition of land, advance payment to equipment suppliers, payment of technical know-how fees etc. • The means of finance envisages term loans of over Rs 36 crores from Financial Institutions, which are not yet tied up. In the event of the term loans not being sanctioned by Financial Institutions, the company intends to raise necessary resources from the capital market. • Out of the means of finance, issue of capital of the value of Rs. 24 Crores is yet to be planned. However, the Company intends to raise this amount by way of Equity Capital from Promoters, Foreign Collaborators and Public. • The Company is yet to take possession of land. However an agreement for purchase has already been entered and part-payment already made

Possession of land is expected by end of September 1993. • Competition from existing and new entrants. • Any major change in government policies relating to taxes, duties etc. may effect the cost of the project and its profitability • TECS survey report does not reveal substantial demand-supply gap for the Company's proposed products in India. However, their report acknowledges that substantial demand exists for quality castings to be produced by Lost-Foam process by the Company. Besides, the Company would be exporting a substantial portion of its production. Since the company is adopting new technology its products would be superior in quality leading to better price realisation compared to its competitors. Considering these factors, the absence of demand-supply gap in domestic market is not likely to adversely affect the company's working. • The Company has not yet finalised orders for civil works and for indigenous plant and machinery. However, the Company has already appointed the architects who are entrusted with the related responsibility. As regards indigenous machinery, suppliers have been already identified and orders in respect of machinery with longer delivery schedules would be placed after completion of the rights issue. • The Company has applied to Maharashtra State Electricity Board for Power connection and their approval is awaited



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ECONOMIC AND POLITICAL WEEKLY

Founder-Editor: Sachin Chaudhuri

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Vol XXVIII No 39

September 25, 1993

Latin America's 'New Poor'

Major elements of the middle class and organised labour in general have absorbed the costs of structural adjustment programmes in Latin America without sharing in the benefits. This is most clearly reflected in an active process of proletarianisation and growing immiserisation of the middle classes throughout the region, a development that has surfaced in the phenomenon of the 'new poor'. What is not so clear are the responses of groups and organisations and the resulting (or possible) class alliances and political alignments. 2080

Weak Base of Rural Credit

The weaknesses of rural credit in India have stemmed from the deficiencies of the structure of agricultural production itself. On this weak base has been raised an imposing superstructure of credit institutions which one committee after another has kept reshuffling and embellishing. What has to be considered, however, is how to reorganise the structure of agricultural production rather than the structure of rural credit. A-86

New Paradigm

Over four decades of experience with agricultural and rural development planning has fostered much national learning for a reassessment of the limits of both the structuralist-institutionalist and the technology-investment led approaches. The time in fact may be ripe for a basic paradigm shift. A-74

Dalits in Tamil Nadu

A dalit consciousness and a dalit political voice emerged in Tamil Nadu in the last quarter of the 19th century before the political expression of non-brahminism, but became eventually a decisive flank in the non-brahmin movement. 2091

Lift-Irrigation

Lift-irrigation as a drought-proofing mechanism is expected to make an unprecedented expansion in the Eighth Plan. A dissection of the lift-irrigation economy in terms of water and power sources and ownership, within and across the four major hydro-geological regions. A-102

Different Touch

Flawed though he was, Chaudhuri Charan Singh stood apart from most of his political opponents—and the urban intellectuals who hated him—in intellect, personal integrity and the coherence of his economic and social thought. 2087

Monetarist Folly

What is the rationale for raising the rate of interest to levels well beyond the productivity of new investment in almost all productive sectors of the economy? 2050

E P Thompson

The outstanding thing about E P Thompson was the way he could combine, throughout his life, passionate political commitment with the highest standards of professional rigour and originality, each feeding into the other. 2055

Real Politics

The proposed legislation to delink politics from religion provides an opportunity for helping the emergence of real politics to displace the pseudo-politics which has dominated us for so long. 2052

A Debate Revisited

Inter-sectoral terms of trade has been fiercely debated in Indian academic circles for over two decades. A recapitulation of the major issues of concept and method. A-111

Unworthy Leaders

The Jharkhand political scenario continues to be dogged by the paradox of a popular autonomy demand burdened with a growingly unpopular leadership. 2066

For Change

There has been much ado about the loss of the 'guru-shishya parampara' in Indian dance and how this is likely to cause a second major period of decline in the classical forms. A sceptical note. 2057

Land Struggles

In keeping with the changing pattern of landownership, land struggles have also acquired a new pattern in UP. 2059

Against Empire

There is more openly-expressed hostility to Beijing in Tibet today than ever before. 2069

LETTERS TO EDITOR

Privatising Primary Education

THE Pimpri-Chinchvad Municipal Corporation (PCMC) runs the Dindayal Upadhyay School in Sant Tukaram Nagar. This building accommodates four different schools. There are two primary schools for boys and girls. The total strength is 1,276 students distributed in 23 classes. This gives an average of 55 students per class. But the school building has no rooms to accommodate all the classes and so four classes of the girls' school and three of the boys' school are conducted on the school verandas. That means a municipal corporation has to conduct seven primary school classes in verandas for want of rooms. And yet, a building built at a cost of Rs 70 lakh by the municipal corporation has been rented out to a private trust school.

That primary education should be in one's mother tongue is an accepted principle. But the learned corporators of PCMC argued bitterly over the issue, favouring the primary education in the English medium. There is only one private school, H A School imparting education in Marathi. In order to favour a private trust, the corporators mooted the idea of an English medium school in the private sector. Once the idea was accepted, they had no difficulty in passing a resolution to give the municipal corporation school building to the privately-run D Y Patil school. Currently, there are over five private English medium schools in the neighbourhood. Not that D Y Patil school will close down if PCMC does not give its building to them. The school is in the process of building new structures. Until recently it charged Rs 5,000 as deposit, Rs 800 as term fee, and Rs 150 as monthly tuition fees. With the intervention of the parents' group, the deposit has been reduced to Rs 2,000, term fees to Rs 200 and the monthly tuition fees to Rs 100. But how many children can afford even these fees? In fact a majority of the children need free primary education and it is the primary duty and responsibility of a local body to provide such education.

The PCMC has also rented out a newly-constructed building adjoining a drama theatre at Chinchvad to the privately-run Lokamanya Medical Foundation Homeopathic Medical College. This building has been constructed at a cost of Rs 70 lakh. A space of 12,553 sq feet has been rented out at Rs 50,000 per month. Is it the duty and responsibility of the

municipal corporation to construct buildings at the cost of the citizens and then rent them out to private educational institutions.

WISHVAS RANE

Pune.

Panchayat Raj

I WISH to make two points in respect of the issues raised in Nirmal Mukarji's paper (May 1). One is regarding the strength that panchayats can hope to secure just by way of the 73rd Constitutional Amendment and the second is regarding the role of the Gram Sabhas.

A crucial difference between the workings of the Article 40 of the Constitution and the new provision (Article 243G) inserted by the 73rd Amendment relates to the functions of the panchayats. While Article 40 prescribed that the state shall endow the panchayats with such powers and authority as may be necessary to enable them to function as instruments of self-government, the new Article 243G is not that firm. While there is a mandate to the states to constitute panchayats, as per Article 243G there is liberty given to the states, by use of the word 'may', to assign powers and functions to the panchayats. Even with the mandate of 'shall' in Article 40, the panchayats had to contend with fluctuating fortunes during the period 1950 to 1992. Now this 'may' provision of Article 243G may not, therefore, by itself give strength to the panchayats.

A lot of effort is required to create a mass base for the panchayats. At the same time, the centre cannot stop its intervention by just introducing the constitutional amendment. I am not going into the details of these suggested twin efforts here for reasons of brevity.

Panchayats by themselves may not truly and effectively provide 'power to people', notwithstanding their three-tier structure. There is a great danger of the ills of bureaucracy seeping into the functioning of the panchayats. There is also danger of panchayats becoming a 'den' of nepotism and casteism. The answer to several of the dangers that one foresees in the system of governance with panchayati raj lies in the institution of gram sabhas. At least the gram panchayats can be exposed to the system of answerability to the people directly. By implication, the message about accountability would go to the other tiers also.

Unfortunately, the Constitution leaves it to the states to provide for gram sabhas (Article 243A). The good news, however, is that the Karnataka Panchayati Raj Act, 1993, which is the latest and most comprehensive law in this direction, does provide for gram sabhas and also entrusts them with sufficient powers and responsibility. One hopes that these provisions will attract the attention of the law-makers in various states which are currently in the process of drafting (or redrafting) the legislations for panchayati raj.

SUDHIR KRISHNA

Mussorie.

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Rendering Finance Commissions Obsolete

THE World Bank has apparently suggested, in its 'country economic memorandum' prepared for the last aid-India consortium meeting in Paris in July, that to ease the effect of tariff reductions on the central government's finances, the proportion of central tax proceeds transferred to the states should be reduced. A specific suggestion by the World Bank is that the new excise duties levied by the union government should be exempted from the revenue-sharing arrangement with states. The World Bank's structural adjustment programme calls for drastic reduction in customs and excise duties and, simultaneously, the slashing of fiscal deficits. In the Bank's view what makes the fiscal adjustment difficult is the revenue-sharing arrangement with the states. In its place, it has been proposed, the centre could commit itself to transferring to the states a certain proportion of GDP, which would allow it to keep additional revenues stemming from any broadening of the tax base and from improved tax administration. The World Bank also lists a variety of initiatives that the state governments can take to improve their own finances which include, predictably, raising of cost recovery rates for power and irrigation, greater emphasis on efficient operation and maintenance of infrastructure sector, weeding out of low priority state public investment projects and better utilisation of states' tax sources (mainly agricultural and property taxes). The central government has also been advised to help the states improve their finances by, among other things, "setting a good example".

All this raises some fundamental questions regarding India's relationship with the multilateral aid agencies. When in the early 1980s the World Bank began structural adjustment and sectoral adjustment lending in the aftermath of the rapidly worsening world economic situation, which exposed many LDCs to severe domestic and external economic crises, serious misgivings had been expressed about the Bank shifting its focus from its traditional investment-financing role to "non-project lending in support of programmes, policies and institutional change necessary to modify the structure of an economy so that it can restore or maintain its growth and viability in its balance of payments over the medium term". The task of assisting LDCs facing balance of payments disequilibrium was that of the IMF. It was argued by the LDCs that the IMF and the World Bank had separate and distinct mandates and that any attempted policy and operational co-ordination between the two would result in a mix-up of their roles giving rise to cross-conditionalities to the detriment of the LDCs who were compelled to borrow mainly because of the hostile world economic setting. It was feared that the World Bank would move sharply in favour of the structural-adjustment and sectoral-adjustment loans (which have already risen to 21 per cent of loan com-

mitments in 1992). In the first half of the 1980s, country after country among the LDCs had cautioned that the conditionalities sought to be imposed by the Bretton Woods institutions should not hurt the LDC governments' ability to take independent policy decisions. Addressing the 1984 annual meetings of the IMF and the World Bank, India's then finance minister, Pranab Mukherjee, had said: "In recent months, both in the Bank and the Fund there has been some discussion of conditionality and the role that these institutions should play in rendering policy advice to borrowing countries. In this situation, it is only proper that the responsibility for taking policy decisions and for deciding on the right course of action rests squarely on those who have to face the consequences of such decisions. Those of us who have to formulate policies and to work out programmes for development in the face of many uncertainties have learned to be modest. Our ability to forecast economic events or even to correctly diagnose the causes of deep-seated problems is not beyond doubt. We would urge that this perspective is kept firmly in view by those who advocate a greater or a more wide-ranging role for multilateral financial institutions in bringing about economic and social change in developing countries." Similar sentiments were repeated by V P Singh as finance minister the next year: "While we are aware that multilateral development institutions have a catalytic role to play, we must ensure that this is not at the expense of their primary role of providing development finance. There is a tendency to offer policy advice when financing is needed, ignoring the special circumstances of different developing countries. Increasingly, we get the impression that the advice is given on the basis of the presumed infallibility of free market forces." Recognising the widespread concern that the balance between the Bank's traditional investment-financing role and its role in supporting policy reform and institutional change might be in danger of being overturned, the Bank's annual report for 1985 conceded that "Bank support for adjustment and reform should be applied with great sensitivity to the social consequences and costs inherent in changes that affect economic groups. In the next several years, if the current global recovery is sustained, immediate issues of stabilisation will become less critical than in the recent past and the Bank's role in support of adjustment and policy reform would likely evolve in the direction of enlarged support for new investment." Based on the Bank's own independent operations evaluation department review around that time, the valid principle was set out that the Bank should assist countries to "internalise" the process of formulating policy reforms. All these principles and goals have, however, been systematically cast aside and the World Bank and the IMF

now unabashedly force policy prescriptions upon the LDCs, ignoring even constitutional arrangements that the country in question may have, as in the present case where the World Bank makes light of India's constitutional provision of five-yearly Finance Commissions for assessment of the fiscal requirements of the states and for the "formulation on an objective basis of proposals for transfer of resources from the centre to the states through devolution of taxes and grants-in-aid".

The typical insensitivity of the World Bank machinery to broader issues is illustrated by the fact that it is recommending curtailment of resource transfers to the states precisely when the state governments are facing an acute resource crunch because, under the impact of so-called fiscal adjustment by the centre, income-tax and excise duty rates have been reduced and states' market borrowings have been restrained, even as interest rates on states' borrowings have been raised. Secondly, the lack of consistency in the World Bank's recommendations is obvious in that the Bank would also like more of public expenditure to be earmarked for agriculture and the social sectors which are all the primary responsibility of the state governments. Lastly, while the World Bank is full of concern for the centre's fiscal gap, what of the overall deficit of the centre and the states together? The states' budget estimates for 1993-94 place their gross fiscal deficit at 3 per cent of GDP, slightly above the revised estimate for 1992-93 at 2.8 per cent, precisely because of the structural adjustment programme. Of the total gross fiscal deficit of the states, the share of loans from the centre has fallen from 53.1 per cent in 1990-91 to 43.1 per cent in 1993-94 and that of market borrowings from 13.6 per cent to 9.2 per cent. The states are trying to fill the gap through high-cost sources including borrowing from banks and from non-banking financial intermediaries.

ELECTIONS

Split in Anti-BJP Vote

IF the electorate is increasingly getting polarised between the pro-BJP and anti-BJP politics, as many observers tend to believe it is, the triangular contests in the coming assembly elections in the four states are likely to divide the anti-BJP votes of the Congress and the National Front-Left combine and ultimately favour the BJP. The decision of Ajit Singh's Janata Dal and Chandra Shekhar's Samajwadi Janata Party (SJP) to merge with the parent Janata Dal will not make much

dent in the Hindi heartland, as these rump formations have little following.

In Uttar Pradesh—the main battleground—the Bahujan Samaj Party (BSP) of Kanshi Ram has already struck an alliance with Mulayam Singh Yadav's Samajwadi Party, posing the possibility of a quadrangular contest, if this alliance fails to come to any understanding with the National Front-Left combine. The BSP-SP alliance is quite likely to cut into the Muslim minority and OBC-scheduled caste vote-bank, on which the National Front had been relying by playing its Mandal card. In the other major state, Madhya Pradesh, the Congress Party is divided, with one faction more anxious to defeat the other than the BJP. The Janata Dal is also a divided house here. In Rajasthan and Himachal Pradesh, the contest will again be a triangular one.

If the BJP wins, the victory will be more by default than by any firm verdict of the voters in favour of its politics of Hindutva. The failure to put up common candidates in a direct contest with the BJP by its opponents (whether in the Congress or the National Front-Left combine) will definitely help the BJP. In a similar game of arithmetic, the CPI(M) recently won the Chowringhee assembly constituency in West Bengal, where the anti-CPI(M) votes got split between the Congress and the BJP and led to the victory of the CPI(M) candidate. Together the BJP and the Congress polled 12,000-odd votes more than the CPI(M). Interestingly enough, while the Congress total came down by some 10,000 votes from its 1991 tally, the bulk of these votes lost by the Congress went this time to the BJP. It is thus evident that the BJP is eating into the traditional Congress vote-bank in West Bengal. Whether it will succeed in doing the same in the coming elections in the four states will depend in large measure on the political maturity of the Congress voters in the Hindi-Hindu heartland. Given the deeply entrenched orthodox values and norms among the electorate, and the frenetic atmosphere of Hindutva whipped up by the BJP in these states, one fears that the hysteria might affect sections of the Congress supporters.

The implications of this ground reality should be evident to all. If the BJP wins the assembly elections in these states, it will start a campaign demanding general parliamentary elections, hoping to win power in New Delhi riding on the crest of its popularity. Both the Congress and the NLF-Left combine realise this threat, but are trapped by their respective political strategies. The Congress wants to go it alone in its electoral campaign in these four crucial states in the Hindi-Hindu heartland by adopting a chameleon-like

posture—as a protector of the Muslims in constituencies dominated by them (by reiterating the idle promise of rebuilding the Babri masjid), as a defender of the rights of the OBCs (by promising the implementation of the Mandal Commission recommendations) and finally, on a wider scale, as an apologist for the majority community (where its need to placate and win over the Hindu devotees of the 'Sangh parivar' leads its leaders and ministers to go and seek blessings from a variety of godmen and shankaracharyas).

As for the National Front-Left combine and regional anti-BJP alliances like the BSP-SP agreement in Uttar Pradesh, they do not look as yet as emerging as decisive factors in all the four states. One cannot blame the secular, anti-BJP elements in these various political formations for refusing to come to any electoral understanding with the Congress to defeat the BJP. The Congress Party, and the prime minister himself most of all, have yet to prove their political will to fight and defeat the fascist forces of the 'Sangh parivar'.

BJP

Dress-Rehearsal for Poll

THE Bharatiya Janata Party's janadesh-yatra will culminate this weekend with what will as likely as not be a mass turnout in Bhopal. Reports indicate that the yatras failed to attract any response in states like West Bengal; and even in the former BJP-ruled states, the response was nowhere like what the rath-yatra had evoked. However, this can hardly be construed as indicative of the party losing favour in these states. For clearly, the party's objective in launching these yatras was neither what it was stated to be—to 'educate people' about the two now virtually aborted bills—nor to demonstrate its strength. The yatras were in the nature of a preparatory exercise to show-case a gamut of possible campaign issues and gauge people's response. These included not only Ayodhya and the two bills, but issues such as corruption and the Congress Party, the indecisiveness of the Narasimha Rao government, dissensions within the ruling party, with economic issues thrown in for good measure. A second objective was also to gauge the strengths and weaknesses of local organisations and to gear them up for the forthcoming campaign. These objectives have been adequately fulfilled.

According to party spokespersons, it is now felt that Ayodhya will have to continue to be the main plank, arrived at by a process of elimination. For instance, at the beginning of the yatra, there was much

talk of highlighting local issues—if it was the Ram mandir in Ayodhya, it was to be the problems of apple growers in Himachal Pradesh and irrigation water in Rajasthan. But these cannot obviously become major issues, especially because it would mean drawing attention to the party's past performance in government, which is not considered to be advisable. Party leaders are of the opinion that the less said about past performance the better, except in the case of Uttar Pradesh. It is, in fact, here that the janadesh-yatra has evoked the greatest response, mainly because of ex-chief minister Kalyan Singh who is being projected as a martyr to the cause of Ayodhya. More importantly, Kalyan Singh is also expected to facilitate the BJP's attempts to capture backward class support and play down its image of an upper caste party. This will also undercut the Janata Dal's one vital plank, the Mandal issue. The yatras have also shown that many local leaders—for instance, Shanta Kumar in Himachal Pradesh—will have to be jettisoned and new faces projected.

As for economic issues, the BJP will play it by the ear. The swadeshi campaign of the RSS has not found favour with several leaders of the party. Moreover, it will be difficult to reconcile the swadeshi theme and the undesirability of accepting the Dunkel draft with the BJP's stand on decontrol and deregulation. On the other hand, the issue has the potential of weaning small farmers and numerous environment and special interest groups away from the left and Janata Dal.

A third outcome of the janadesh-yatra is of significance not only to the party but to the entire election process at the current juncture. Whatever the spoken intentions of the party's major leaders on the conduct of the elections, the yatra has served to legitimise the use of hate speech as an integral part of the election campaign. Newspapers have extensively reported the virulent nature of some of the public speeches by minor leaders during the yatra. And this will continue to be the pattern during the campaign. What is surprising is that none of this has come in for comment from any quarters, not even from the centre or the ruling party which has ostensibly attempted to introduce legislation precisely to prevent such trends.

JANATA MERGER

Non-Event to Note

A correspondent writes:

SO the various splinters of the Janata Dal—except for the one headed by Mulayam Singh Yadav—have decided to

merge. One could respond to this event with derisive laughter. Another merger? Till another split? And so on. For, the history of the Dal provides little content to provoke any other response. Indeed, if one were to give in to the currently fashionable temptation of citing Derrida at the drop of a hat, the internal politics of the Dal has almost literally been a case of politics of 'différance', in that it has always been extremely difficult to pin down its sense or meaning. However, in the polyglot world of Derridean 'non-paradigms', the words or signs at least throw up some meaning, in howsoever slippery a fashion, in 'dis-connection' with something, in this case other words or signs. In the internal politics of the Janata Dal, on the other hand, one is hard put to find a word or sign, a *thing*, of much substance. Therefore, the merger of *what* with *what?* and to what *effect?*

And yet, the non-events of politics may at times prove more eventful in their ultimate non-effects than the events proper. This merger could, for example, come apart sooner rather than later, imbuing the present near non-event of the merger with the status of a full-fledged event that may, in retrospect, look to have been pregnant with many possibilities. Such as (1) a boost to V P Singh's politics of reservation, this time for the upper caste poor (he has recently demanded a quota of 10 per cent of jobs for them). In an atmosphere where the mainstream left still feels shy of openly representing those poorer sections of society which do not neatly fit into its vision of the working class, V P Singh's advocacy, howsoever shallow, of the rights of the upper caste poor was, it might come to be perceived in retrospect, a strand of subaltern politics. (2) A revival of Dal's championship of the minorities, particularly the Muslims, at least in UP where the Hindutva steamroller had overawed them, in the face of the Congress(I)'s equivocation, into bewildered silence.

Coming back to the present, both these possibilities look very much real and, in the context of the forthcoming elections in UP, fairly desirable. Although the real intention of the Congress(I) in announcing the recent extension of the benefit of reservation in jobs to the OBCs was to hijack V P Singh's reservation plank, in effect it is likely to go to the advantage of the OBC poor. If a reunited Janata Dal continues to demand reservation for the upper caste poor, it could result, at some later date, in a similar advantage to them.

A revival of the championship of Muslims, especially if it results in a setback to both the BJP and the Congress(I)

in the coming elections in UP, could give a feeling of security to that community.

The possible realisation of these possibilities, of course, would depend, to a great extent, on a merger, or at least an alliance, of the Samajwadi Party of Mulayam Singh with the Janata Dal. Mulayam's joining hands with the Dal would not only directly strengthen the forces which are oriented against the Hindutva plank, it would also do so indirectly by forcing the Congress(I) to adopt a more aggressive anti-BJP stance. But Mulayam seems unwilling to give up the leverage he enjoys as the leader of an independent party. So far his response to the invitation by the Dal leaders to join them as their candidate for chief ministership in UP has been lukewarm. And in the absence of a positive response from Kanshi Ram as well, the Dal is now trying to engineer a split in the ranks of the BSP. The ultimate loser as a consequence of these goings-on could be not only the Janata Dal, the BSP and the Samajwadi Party, but also the Muslims and dalits of UP.

PALESTINE

An End and a Beginning

YASSER ARAFAT, in an interview given to BBC sometime in June last, appeared overly optimistic when he invited the interviewer to come and have breakfast with him in Palestine after one-and-a-half years. But with the signing of the agreement between the PLO and Israel Arafat's gesture has proved prophetic.

The PLO had lost its military teeth with the forced withdrawal from Lebanon. It had lost politically and financially, too, by supporting Iraq against the US-led invasion which saw thousands of Palestinians thrown out of Saudi Arabia and Kuwait and the discontinuance of aid from the oil-rich Gulf states. And with the growing strength of the Hamas, it faced the threat of losing its representative character as well. Finally, Israel appeared to be as trenchant in its opposition to the PLO and as unsympathetic to Palestinians as ever before. To pull out of this dismal situation the recent agreement is nothing short of a diplomatic victory.

Actually, all this is in no small measure due to the 'Intifada'. No matter how much it tried, Israel had not been able to crush the Intifada or break the Palestinian spirit. Even more remarkably, despite the disdainful attitude of the outside powers towards the PLO and the Palestinians, and the cynical manipulations of the Arab regimes of Kuwait, Saudi Arabia, etc, the struggle had not slackened. That too against an extremely brutal military force

whose reprisals, backed by the US, compared in barbarity with those of any colonial occupation force. This, combined with the growing appeal of the Hamas, made it clear to Israel and to the US that the policy of destroying the democratic Palestinian organisation would mean the emergence of a force that would bleed Israel with relentless military campaigns. The spectre of pan-Islamic fundamentalism, painted by Shimon Peres repeatedly as the main threat facing the west, too, compelled Israel to shift position. In this sense, the fear of the Hamas replacing the PLO necessitated a more appreciative assessment of the latter.

On the face of it, Israel has won substantive concessions from the PLO: recognition of the state of Israel and its right to exist in peace and security and forswearance of the use of violence. In return, the Palestinians get just Gaza and the town of Jericho under self-rule, and recognition of the PLO. Nevertheless, while the existence of a Palestinian state is not mentioned, the very recognition of the PLO symbolises a tacit acceptance of the Palestinian aspiration for a state. Let us recall that for Israel the PLO was nothing but a terrorist organisation, and the Palestinians were not a nationality but Arabs. Undoubtedly, Arafat is not the PLO, and with the emergence of the Hamas the PLO's representative character too is disputed. But it is significant that Hamas has sent feelers for holding talks with the PLO. And despite the abuse heaped on Arafat by his opponents, the leader of the first batch of the returning Hamas deportees, in his speech, appealed that no Palestinian should shed the blood of a fellow Palestinian.

Nevertheless, the divisions within the PLO and the Palestinians cannot be wished away. Unless the Arafat-led PLO can show its administrative skills, the elections which will be held for the Palestinian council may upset all calculations. More difficult will be calling off of the Intifada and the possibility of struggle among the Palestinians. Similarly, the conflict between the settlers and Rabin government, between those Israelis who consider even a minimal concession as the beginning of the end of the Israeli state and those who advocate coming to terms with the Palestinian aspirations will be volatile. But precisely because of these divisions, a major mental block will be removed: the mutual stereotypical view of Israel and the Palestinians which saw each side as a monolith.

There is something else that needs to be noted. While the US knew of the secret negotiations at Oslo for the past 14 months, it refused to believe that anything would come out of these negotiations.

Further, the US administration was unaware of the text of the agreement till it was first announced. In fact, it expected some agreement to emerge at the 11th round of Middle-East talks. The US, which sees itself as an international policeman and Israel's staunchest supporter, was kept out of the talks only because it continued to ignore the PLO. This implies that the much-touted US role as a 'peace-keeper' has now been eroded. On the other hand, a small country like Norway has shown that it could do a better job of initiating a process which has placed the Palestinians at a point from where they could continue to negotiate with Israel for an eventual Palestinian state.

POLAND

Left, Right, Left...

THERE is a touch of irony in the dominant media response to the victory of the Democratic Left Alliance (SLD) in the recent elections in Poland: on the one hand, the media has chosen to call the SLD 'ex-communists'; on the other, it is clearly feeling jittery. If the SLD is only 'ex-communist', why the jitters? And if its victory really calls for wet brows, then why not admit that it is the communists who have come to power again? However, the irony is of the rightist media's own making, although it goes deeper than mere semantics: it springs from a prejudiced understanding of the political and economic climate in Poland and eastern Europe and of the nature of the left generally in this region.

Sticking to Poland for the moment, the Democratic Left are just that, the *democratic* left, for they no longer adhere to the concepts of nationalised ownership, central planning and one-party rule. Instead, they believe in so-called free enterprise, but with generous social support to the needy, and to pay for the latter they promise crack-downs on tax evasion and corruption.

The right is surprised and feels cheated that the left has won in a country which was the first to liberate itself from Soviet domination and dismantle one-party centralised regime, and it fears that the left may now attempt to put the clock back. However, as mentioned above, the agenda of the SLD contains enough indications to rule out any such fears; it also gives sufficient hints as to why the left could still become the first choice of a large segment of the population of a society in a hurry to switch to capitalism. To put it bluntly, the newly-marginalised sections of this society, namely, the unemployed among the youth and

workers, the lower peasantry, the old and the infirm, have ruled that democracy and freedom are not enough; what is also needed is security from hunger and want, which converted into economic terms means guarantee of employment and sufficiency of income—and, if these are not available on a regular enough basis, a well-developed system of social security.

In its rush to embrace capitalist growth, the right, from Poland to Russia to elsewhere in new-old eastern Europe, has forgotten to imbibe the wisdom which precisely such growth has thrown up in the west over a period of more than 150 years, namely, that capitalism, if left untempered through social intervention, can spell disaster for a large segment of the population, leaving a trail of misery, want and crime—and bloody civil war at places. The right has also not cared, in the midst of such hurry, to learn to manage perspicaciously the newly-capitalist economies of these societies—which is a complex business even under normal circumstances. The democratic left's mastery of these details is no better than that of the right, but being both democratic and left, it stands a greater chance of mastering them in societies where the people having seen the worst of both the left and right now want only the best of both. The right in these societies, being unashamedly right, is in this sense at a disadvantage. However, it need not be overly worried. The history of both the democratic left and the right in western societies shows that the left is as liable to make mistakes as the right is likely to learn from its own. In this lies the chance of a 'reformed' right.

Besides, the SLD's likely partner in a coalition government (the SLD has won only 37 per cent of the 460 seats in parliament), the Polish Peasant Party (PSL), does not see eye-to-eye with it on all issues. While the SLD is committed to the strategy of market reforms, the PSL opposes privatisation of industry, wants a big increase in subsidies to farmers, and is generally willing to let the budget deficit rise. This could give rise to problems not merely between the coalition partners but also between Poland and the European Community. The SLD wants Poland to join the Community, but for that it would have to keep the western governments and financial institutions in good humour by showing 'fiscal responsibility'. But the PSL may pressurise the SLD to slow down market reforms and increase spending, prompting the EC to develop cold feet on the issue of admitting Poland to its precincts.

So the right in Poland should keep its agenda ready and its fingers crossed.

Recession Neutralises Steel Decontrol

EPW Research Foundation

THE recession in Indian industry and reduced government purchases in particular adversely affected the performance in 1992-93 of TISCO, the flagship company of the Tatas and the third-largest private sector company in terms of sales.

The company's profitability suffered a jolt following more than proportionate increase in cost of inputs and interest cost, besides higher depreciation provision due to accelerated capital expenditure for modernisation. Though net sales increased by 18.6 per cent to Rs 3,096 crore, gross profits fell by 28.8 per cent and pre-tax profits by 65.7 per cent. Despite not having to provide for corporate taxation at all, profit after tax (PAT) fell by 54.7 per cent from Rs 201 crore to Rs 119 crore, leading to slashing of dividend from 35 per cent to 25 per cent though on a higher capital base (at Rs 278 crore against Rs 230 crore). The absolute amount of dividend was lower by 24.3 per cent from Rs 80.55 crore in 1991-92 to Rs 64.82 crore in 1992-93.

The supply of steel in the domestic market exceeds demand, but due to further sluggishness the company was not only unable to raise product prices after steel decontrol in spite of cost increases but was also compelled to provide discounts of above Rs 200 per tonne on sales from December 1992. Though exports of steel and engineering products rose significantly from 2.59 lakh tonnes (Rs 252 crore) to 4.11 lakh tonnes (Rs 379 crore) and accounted for 44 per cent of total steel exports by the main producers, the company made a net loss of Rs 50 crore on exports due to unremunerative prices following the recession in the west. Even the growing Chinese market lowered offtake. TISCO's total exports, including exports of coffee, spices, etc, increased by about 42 per cent from Rs 449 crore to Rs 637 crore, but its imports too rose by 10.8 per cent from Rs 413 crore to Rs 458 crore.

An all-round cost escalation is reflected in the increase of 25.7 per cent in manufacturing expenses, of 54.3 per cent in royalty on coal and of 31.9 per cent in interest cost. Depreciation rose by 30.3 per cent. The increase in wage cost was the lowest at 15.5 per cent. Gross profit on

sales plummeted from 16.4 per cent to 10.8 per cent. Likewise return on investment declined from 9 per cent to 5.4 per cent. This compares unfavourably with the average earnings of 48 steel companies in the country (small and main producers alike). The gross value added originating in the company rose by 11.1 per cent but the bulk of the increase was due to the rise in interest cost (43 per cent). Debt-equity ratio as well as short-term bank borrowings as percentage of inventories shot up.

As for the future, chairman Ratan N Tata exudes confidence, especially from 1995-96 onwards when the company's phase III modernisation reaches full-rated capacity. Hot-rolled flat products which the company then proposes to manufacture will cater to the automotive, packaging and consumer durable industries which are expected to do well. The commissioning of the fuel-efficient blast furnace incorporating some of the state-of-the-art technology has given a boost to the company's energy conservation drive. Tata, at his first annual general meeting as chairman, confirmed that TISCO is considering the merger of several of its subsidiaries, while keeping the focus on steel. Due to the unfavourable conditions, the company's \$ 100 million Euro Issue has been postponed. There is known to have been a slight improvement in the performance of the company in the first quarter of 1993-94, including better profitability on exports.

SPECIAL STEELS New Projects

Special Steels, a subsidiary of the Tata Iron and Steel and also the largest manufacturer of steel wires in the country, suffered a setback in 1992-93, reflecting the demand recession faced by steel products. The company's products find application in the transport, construction, power and general engineering industries.

Turnover in 1992-93 showed a small drop from Rs 264 crore in 1991-92 to Rs 262 crore, while total manufacturing expenses rose by 8.9 per cent to Rs 197 crore (Rs 181 crore). Gross value added fell by 12.4 per cent to Rs 62 crore (Rs 70.7 crore). Depreciation and interest charges

rose by 13.2 per cent and 11.7 per cent, respectively. Total remuneration to employees went up by 10.9 per cent to Rs 29.7 crore taking its percentage to gross value added to 48 per cent (37.9 per cent). Though gross profit fell by 35 per cent from Rs 38.3 crore to Rs 24.9 crore, net profit rose by 8.4 per cent to Rs 20.2 crore principally due to the nil provision for taxation (Rs 15.5 crore). The profitability ratios, namely, return on sales, return on investment and return on assets, have all deteriorated rather markedly. The company has maintained dividend at 30 per cent though actual disbursements will be higher due to the increase in equity base as a result of the conversion of PCDs in January. The retained profit is higher by 6.9 per cent at Rs 16.22 crore (Rs 15.17 crore).

The company's Rs 151 crore cold-rolling mill at Tarapore, which will cater to the engineering industry and save considerable foreign exchange, was commissioned in March. The company also plans to substantially expand its stranded wire production capacity at Borivli in Bombay to 20,000 tonnes per annum for which it has already obtained a letter of intent. The company's low relaxation PC wire project, the first of its kind in the country, will be completed in March 1994 and will save in steel and structure costs.

TISCO, the holding company, is proposing to merge Special Steels with Tata Metals that currently has both hot and cold rolling mills. The merged entity will be totally self-reliant in terms of sourcing raw materials and funding.

LLOYDS STEEL INDUSTRIES Erratic Operations

Lloyds Steel Industries is a Gupta group company carrying on fabrication of machinery relating to chemicals and pharmaceuticals, structurals, marine loading arms and other engineering services and also manufacturing steel tubes and pipes. Though the company's net sales showed a growth of 43.6 per cent in 1992-93 from 58.7 crore in 1991-92 to Rs 84.3 crore, the turnover ratio declined drastically from 30.4 per cent to 23.7 per cent. 'Other income' was higher at Rs 17 crore mainly because of sales proceeds of the Andheri premises of the company amounting to Rs 11.11 crore. Total manufacturing expenses increased by 66.2 per cent, which not only reflects poorly on the operating efficiency of the company but also in-

Financial Indicators	Tata Steel		Special Steel		Lloyds Steel		Century Textiles		Century Enka	
	March 1993	March 1992	March 1993	March 1992	March 1993	March 1992	March 1993	March 1992	March 1993	March 1992
Income/appropriations										
1 Net sales	309590	261067	26216	26396	8425	5866	106063	100172	36827	35944
2 Value of production	315155	273730	27427	26547	8826	5209	106623	101549	36540	36983
3 Total income	324668	284014	27646	26837	8974	5409	111376	105811	37756	38078
4 Raw materials/stores and spares consumed	98580	80121	15676	15392	5648	3345	34444	30209	21388	21536
5 Other manufacturing expenses	52481	39239	4022	2694	674	458	26669	21988	4486	4314
6 Remuneration to employees	55134	47687	2973	2682	129	245	11408	10274	1253	1008
7 Other expenses	67852	59013	1974	1538	627	379	15572	15075	2153	2089
8 Operating profit	50621	57954	3001	4531	1896	982	23283	28265	8476	9131
9 Interest	20259	14166	831	744	271	184	6691	4274	2451	2276
10 Gross profit	33547	42944	2486	3825	3151	1187	17582	24332	6389	6852
11 Depreciation	21537	16489	471	416	142	145	7584	8366	4888	4624
12 Profit before tax	11910	26455	2015	3409	3009	1042	9841	15862	1499	2228
13 Tax provision	0	6400	0	1550	0	0	3400	8000	525	1475
14 Profit after tax	11910	20055	2015	1859	3009	1042	6441	7862	974	753
15 Dividends	6482	8055	393	342	667	286	1789	1789	983	983
16 Retained profit	5428	12000	1622	1517	2342	756	4652	6073	-9	-230
Liabilities/assets										
17 Paid-up capital	27845	23012	1949	1139	3958	1840	4259	4259	2366	2368
18 Reserves and surplus	170794	131536	12346	5450	12827	5189	39510	35342	23130	23117
19 Long term loans	258769	188476	6582	7320	10831	6834	56291	42201	10448	11582
20 Short term loans	45186	16654	3373	1464	1642	1580	5499	6728	4958	6839
21 Of which bank borrowings	45186	16654	3344	931	1157	452	5337	6487	1689	2982
22 Gross fixed assets	546313	402616	19920	10993	26307	11743	105917	94769	53476	51818
23 Accumulated depreciation	135549	114797	4162	3693	689	553	50768	43430	26911	22062
24 Total assets/liabilities	623718	477609	28587	19218	35548	19281	137438	116409	51101	55174
Miscellaneous items										
25 Excise duty	25625	17660	1360	1200	109	123	13264	9521	20246	20308
26 Gross value added	108316	97515	6195	7072	5050	1980	33894	37150	9891	9564
27 Total foreign exchange income	64100	45562	0	1	0	0	21065	19468	274	1111
28 Total foreign exchange outgo	54156	47907	3234	1164	3640	305	2910	4345	3903	5586
Key financial and performance ratios										
29 Turnover ratio (sales to total assets) (%)	49.6	54.7	91.7	137.4	23.7	30.4	77.2	86.1	72.1	65.1
30 Sales to total net assets (%)	61.6	72.6	108.1	171.7	28.8	38.0	100.5	113.2	90.0	81.9
31 Gross value added to gross fixed assets (%)	19.8	24.2	31.1	64.3	19.2	16.9	32.0	39.2	18.5	18.5
32 Return on investment (gross profit to total assets) (%)	5.4	9.0	8.7	19.9	8.9	6.2	12.8	20.9	12.5	12.4
33 Gross profit to sales (gross margin) (%)	10.8	16.4	9.5	14.5	37.4	20.2	16.6	24.3	17.3	19.1
34 Operating profit to sales (%)	16.4	22.2	11.4	17.2	22.5	16.7	22.0	28.2	23.0	25.4
35 Profit before tax to sales (%)	3.8	10.1	7.7	12.9	35.7	17.8	9.3	15.8	4.1	6.2
36 Tax provision to profit before tax (%)	0.0	24.2	0.0	45.5	0.0	0.0	34.5	50.4	35.0	66.2
37 Profit after tax to net worth (return on equity) (%)	6.0	13.0	14.1	28.2	17.9	14.8	14.7	19.9	3.8	3.0
38 Dividend (%)	25	35	30	30	25	25	42	42	42	42
39 Earning per share (Rs)	4.28	8.72	10.34	16.32	7.60	5.66	151.23	184.60	41.62	32.13
40 Book value per share (Rs)	71.34	67.16	73.35	57.85	42.20	37.74	908.41	799.18	756.79	756.39
41 P/E ratio (based on latest and corresponding last year's price)	43.5	44.4	13.8	18.4	5.0	10.7	37.5	42.3	97.4	115.3
42 Debt-equity ratio (adjusted for revaluation) (%)	130.3	122.0	46.0	111.1	64.8	98.4	145.5	124.0	59.2	65.7
43 Short term bank borrowings to inventories (%)	45.8	20.3	56.6	21.4	77.8	44.0	27.7	37.1	18.4	27.3
44 Sundry creditors to sundry debtors (%)	162.8	199.5	44.5	42.1	102.2	65.6	126.0	146.5	62.7	70.0
45 Total remuneration to employees to gross value added (%)	50.9	48.9	48.0	37.9	2.6	12.4	33.7	27.7	12.7	10.5
46 Total remuneration to employees to value of production (%)	17.5	17.4	10.8	10.1	1.5	4.7	10.7	10.1	3.4	2.7

dictates the erratic nature of the company's operations. This is brought out also by total remuneration to employees which, though already relatively low at Rs 2.5 crore in 1991-92, has declined to Rs 1.3 crore, taking the percentage of wages to gross value added from 12.4 to 2.6. Interest charges increased from Rs 1.8 crore to Rs 2.7 crore. The company has maintained dividend at 25 per cent, though on equity capital which has more than doubled on account of the conversion of debentures. That the P/E ratio has fallen drastically to 5.0 is evidence enough of the erratic nature of the company's performance.

The company is diversifying into engineering and steel plant equipment and power plants on turnkey basis for which it has entered into an MOU's with Brawn Utility Services Corporation of New York and United Engineering, USA. The HR coil project is expected to commence production by the first quarter of 1994. To part finance this project and other activities, the company proposes to come out with a fully convertible debenture issue of Rs 230 crore which will further expand its equity capital.

The company also proposes to set up a CR steel and GP/GC sheet plant for value addition to the HR coil project. The GP/GC sheet and CR steel sector is currently suffering from excess capacity and hence this project does not augur well for the company, though the transport cost of HR coil to the CR steel plant will be zero.

The company has been able to bag a Rs 24 crore order from Indian Oil Corporation to be executed on turnkey basis for IOC's Kandla-Bhatinda pipeline project, taking total contracts on hand to over Rs 120 crore.

Lloyds Realty, a subsidiary of the company, showed a net profit of Rs 29 lakh in 1992-93, compared to a loss of Rs 0.73 lakh in the previous year. This is mainly due to write-back of depreciation of Rs 26 lakh (on account of the company changing its depreciation policy from written down value to straightline method basis which when deducted gives a net profit of Rs 2.78 lakh only).

CENTURY TEXTILES

Troubled Year

This B K Birla group company, which is one of the oldest textile mills in the country, faced a series of problems in 1992-93 resulting in a serious setback to its bottomline.

Though net sales were higher by 5.9 per cent at Rs 1,060.63 crore, total manufacturing expenses increased by a sizeable

17.1 per cent. This coupled with the increase in remuneration to employees resulted in a sharp fall of 17.6 per cent in operating profit. There was a 56.6 per cent rise in interest cost due to higher average interest rates as also a 26 per cent rise in total debt. As a result, the company faced a 27.7 per cent fall in gross profit from Rs 24.3 crore to Rs 17.6 crore. Due to inadequate investment in the recent past, depreciation provision was lower by 9.3 per cent. The tax provision was also lower by 57.5 per cent at Rs 34 crore (Rs 80 crore). Though there was a sharp fall in net profit by 18.1 per cent from Rs 78.6 crore in 1991-92 to Rs 64.4 crore, the company has maintained dividend at 42 per cent.

The performance of the textile division of the company has been unsatisfactory due to the recessionary as also the acutely competitive conditions in the international market. Apart from the depressed conditions in India and abroad, the cost of production increased sharply due to the very high cotton prices until about the end of 1992; there were increases also in wages, dearness allowance and power and fuel charges. A section of the Kalyan plant had to be shut down temporarily as per the directive of the Maharashtra Pollution Control Board and the state government from April 18 this year as there was an overflow from the spin-bath storage tanks due to accidental non-functioning of some electrical equipment.

The shipping division is also facing problems due to developments in the former USSR and the government's decision to decanalise phosphatic and potassic fertilisers imports. Though production of cement increased from 25.83 lakh tonnes to 26.21 lakh tonnes, profitability was again affected due to the sluggish market conditions. The company's rayon, tyre cord and chemicals divisions on the other hand are operating satisfactorily and the paper and pulp division is expected to do well in the second half of the current year as the results of the modifications in this unit will be evident then.

The company having entered the capital market during the year with an issue of non-convertible debentures amounting to Rs 150 crore issued on private placement basis, will again be making a non-convertible debenture issue of Rs 500 crore on public-cum-rights or private placement basis to finance its huge investment plan which includes the setting up of a cement plant at Maihar, a Rs 1,200 crore thermal power project in Rajasthan and a Rs 400 crore bagasse-board paper plant. The company is also setting up an 100 per cent export-oriented cotton yarn/blended yarn unit in Madhya Pradesh, production of

which is expected to commence by the end of this year.

The company's sales in the first quarter of 1993-94 have shown an 18.8 per cent rise. Barring the cement division, B K Birla expects the company to do well this year.

CENTURY ENKA

Delicensing Takes Toll

Century Enka, another B K Birla group company, manufacturing nylon filament yarn, polyester filament yarn, nylon industrial yarn/tyre cord, nylon tyre cord fabric, polymer resins polyester (saturated) and polyamide, has been showing a constant erosion in profitability over the last few years. The recession in the textile industry coupled with the all-India transporters' strike in July 1992 adversely affected the company's working in 1992-93.

After a 12 per cent increase in 1991-92, gross sales rose by only 1.5 per cent from Rs 562.5 crore to Rs 570.7 crore, reflecting constant erosion of the growth rate over the past four years. Though total manufacturing expenses were constant at Rs 259 crore, there was a 24.3 per cent escalation in remuneration to employees which is partly responsible for the decline in operating profit by 7.2 per cent. A 7.7 per cent rise in interest charges coupled with a 5.7 per cent rise in depreciation have led to a 32.7 per cent fall in profit before tax from Rs 22.3 crore to Rs 15 crore. Even so, the lower tax provision this year at Rs 5.3 crore has resulted in a rise in net profit from Rs 7.5 crore to Rs 9.7 crore. The company has maintained the dividend at 42 per cent.

The nylon and polyester yarn units of the company performed poorly mainly due to the recession in industry and delicensing which resulted in over-supply in the market, compelling the company to reduce production and prices considerably. The company's performance on the export front has also been disappointing due to the recession in textile business in the developed countries. The nylon industrial yarn and tyre cord unit's performance on the other hand has not suffered.

Trial production of the company's diversification scheme for polyester industrial yarn has commenced and the product samples have been approved by the collaborators. The company proposes to review the technology selection and project composition for expansion of its polyester filament yarn capacity due to new technological developments. Hopefully, the company may benefit from the excise reduction in the 1993-94 budget and thus show improved performance in the current year.

RESERVE BANK OF INDIA SERVICES BOARD, BOMBAY

Adv. No. 1/93-94

Telegraphic Address
'SERVBOARD' BOMBAY

Applications (Apps.) are invited for the following posts of Officers in Reserve Bank of India (RBI/Bank).

Sr. No.	Name of the post	No. of posts	Reservation	
			Scheduled Caste (SC)	Scheduled Tribe (ST)
1.	Staff Officers in Gr. 'B'	48	7	9
2.	Research Officers in Gr. 'B' in Department of Economic Analysis and Policy (DEAP)	12	2	1
3.	Research Officers in Gr. 'B' in Department of Statistical Analysis and Computer Services (DESACS)	5	1	-
4.	Legal Officers in Gr. 'B' in Legal Department	2	-	1*

* In the event, no ST category candidate qualifies for selection, SC category candidate will be considered for the post. Reserve lists may also be prepared.

A. STAFF OFFICERS IN GR. 'B'

a) Qualifications (As on 1.11.93)

- Chartered Accountant or Cost Accountant with a Bachelor's Degree. For Cost Accountant a minimum of two years' experience in any financial institution or public sector undertaking is essential, OR
- A Bachelor's Degree or a Post Graduate Degree in Computer Science/Applications (e.g. B.E./B.Tech., M.E./M.Tech., BCA/MCA) with a minimum of 50% marks in the aggregate or its equivalent grade. A Diploma in Computer Science/Applications (even with a Bachelor's or Master's Degree in some other subjects) will not be acceptable, OR
- A Graduate or a Post-Graduate Degree with a minimum of 50% marks in the aggregate or its equivalent grade plus minimum of 5 years' experience (including probationary period) in a Commercial Bank as an Officer.

SC/ST candidates with a pass class in Graduate/Post-Graduate Degree examination and having qualifications/eligibility as mentioned at (i), (ii) or (iii) above are eligible to apply.

b) Age Limit (As on 1.9.93)

Between 21 and 30 years (i.e. candidates must have been born not earlier than 2nd September, 1963 and not later than 1st September, 1972) (Refer item 'F' below for age relaxation)

c) Scheme of Selection

Written Examination will be held on Saturday, the 22nd and Sunday, the 23rd January, 1994 and will consist of both Objective and Descriptive Type papers.

	Duration (In hours)	Max. Marks
Paper I Objective Type Test Consisting of i) Separate tests of professional knowledge/job knowledge for a) Chartered Accountants/ Cost Accountants, b) Candidates with qualifications in Computer Science, and c) Candidates with experience of Commercial Banking (Law and Practice of Banking) ii) Test of English Language,* iii) Test of Quantitative Aptitude* and iv) Test of Reasoning *	3	200
Descriptive Type Test* Paper II English - (Essay, Precise Writing, Comprehension, Business Office correspondence)	3	100
Paper III Social and Economic Problems	3	100
Total		400

* Common tests for all candidates

Note: Paper I (except the test of professional knowledge/job knowledge and English language) and Paper III will be set bilingually i.e. in Hindi and English. The candidates will have the option to answer Paper III either in Hindi or in English.

B. RESEARCH OFFICERS IN DEAP

a) Qualifications (As on 1.11.93)

Essential: A Master's Degree in Economics/Econometrics/Commerce from a recognised Indian or Foreign University/Institute with a minimum of 55% marks or equivalent grade.

Desirable: i) Candidates with a Doctorate Degree in Economics/Econometrics/Commerce from a recognised Indian or Foreign University/Institute will be given preference.

ii) Research or teaching experience and publications in standard journals will be considered as an additional qualification.

b) Age Limit (As on 1.9.93)

Between 21 and 28 years (i.e. candidates must have been born not earlier than 2nd September, 1965 and not later than 1st September, 1972). (Refer item 'F' below for age relaxation).

i) Candidates having a Doctorate Degree from a recognised Indian/Foreign University/Institute in the specified subjects will be eligible for relaxation in the upper age limit by 5 years.

ii) Candidates with research/teaching experience at a recognised Indian/Foreign University/Institute will be eligible for relaxation in upper age limit to the extent of number of years of such experience subject to a maximum of 5 years. However, cumulative age relaxation will not be available if candidate is eligible under both the above categories as also under any of the other specified categories mentioned in item 'F' below.

c) Scheme of Selection

Written Examination will be held on Sunday, the 9th January, 1994 consisting of an Objective Type Paper (100 marks) and a Descriptive Type Paper (100 marks) of 3 hours each. Standard of the papers would be that of Master's Degree Examination of any Central University in India. In both the papers, questions would be set broadly on topics covered in the syllabus mentioned in the detailed advertisement (Refer item 'M' below)

C. RESEARCH OFFICERS IN DESACS

a) Qualifications (As on 1.11.93)

Essential: i) A Master's Degree in Statistics/Mathematical Statistics/Mathematical Economics/Econometrics from a recognised Indian or Foreign University/Institute with a minimum of 55% marks or equivalent grade; OR

ii) A Master's Degree in Mathematics from a recognised Indian or Foreign University/Institute with a minimum of 55% marks or equivalent grade and one year Post-Graduate Diploma in Statistics or related subjects from an institute of repute; OR

iii) M.Stat. Degree of Indian Statistical Institute with a minimum of 55% marks

Desirable: i) Candidate with a Doctorate in Statistics/Mathematical Statistics/Mathematical Economics/Econometrics from a recognised Indian or Foreign University/Institute will be given preference.

ii) Research or teaching experience and publications in standard journals will be considered as an additional qualification.

b) Age Limit (As on 1.9.93)

Between 21 and 28 years (i.e. candidates must have been born not earlier than 2nd September, 1965 and not later than 1st September, 1972) (Refer item 'F' below for age relaxation)

c) Scheme of Selection

Written Examination will be held on Sunday, the 2nd January, 1994 consisting of an Objective Type Paper (100 marks) and a Descriptive Type Paper (100 marks) of 2 hours each. In both the papers questions would cover basic Mathematics, Statistics and Mathematical Economics. Standard of the papers would be that of Master's Degree Examination at any Central University in India.

D. LEGAL OFFICERS IN LEGAL DEPARTMENT

a) Qualifications: (As on 1.11.93)

Essential: A Bachelor's Degree in Law with a minimum of 50% marks from a recognised University/Institute or equivalent

Desirable: A Master's Degree in Law from a recognised University/Institute or equivalent.

b) Experience (As on 1.11.93)

Essential: At least 3 year's experience as an Advocate or as a Law Officer in the Legal Department of a large Banking/Financial Institution and/or as a Lawyer in an Advocate's/Solicitor's Office.

Desirable: Special knowledge of Banking and Company Laws, Labour Laws, Constitutional Law and experience in documentation.

(Continued on Page No. 2047.)

c) Age Limit (as on 1.9.93)

Not exceeding 32 years (i.e. candidates must have been born not earlier than 2nd September, 1961). Upper age limit is relaxable by 3 years in case of candidates possessing exceptional qualifications and/or experience of value to the Bank. (Refer item 'F' below for age relaxation).

d) Scheme of Selection

Written Examination will be held on Sunday the 19th December, 1993 consisting of a conventional Descriptive Type Paper of 3 hours duration carrying 100 marks. Questions will be set to assess the candidates' general knowledge of Law and in particular Commercial Law, Banking Laws and Jurisprudence and their ability to apply legal principles in deal with problems in finance and banking.

E. JOB REQUIREMENTS

i) For Research Officers In DEAP: To undertake research activities and participate in policy formulation among others.

ii) For Research Officers In DESACS: To undertake collection, completion, analysis and interpretation of data from various sources, undertake statistical analysis involving modern statistical/econometric models, empirical testing of data, etc. to undertake conceptual and methodological studies on various types of statistics relating to money and banking, prices, saving and investment, national account, index number, etc., designing and organising of large scale sample surveys and to undertake systems analysis and computer programme development and processing on the Bank's Computer System

iii) For Legal Officers In Legal Department

- Dealing with references on legal issues received from various departments of the Bank and its associate institutions. Legal problems arising mainly in connection with administration of the various statutes including RBI Act, 1934, Banking Regulation Act, 1949, Foreign Exchange Regulation Act, 1973, Public Debt Act, 1944 and the Companies Act, 1956,
- Documentation in connection with lending to industry and agriculture in RBI and its associate institutions and also relating to acquisition of property by the Bank.
- Preparing initial drafts of legislation administered by the Bank
- Preparation of comprehensive instructions and briefs to Counsel in connection with litigations involving the Bank and its associate institutions and assisting at the time matters are heard.
- Appearing before Conciliatory Officers, Labour Courts, etc., to represent the Bank.

F. RELAXATION IN UPPER AGE LIMIT

Upper age limit is relaxable for all the posts by 5 years in case of

- Ex-employees of banking institutions, whose services had to be terminated for reasons of economy or as a result of the bank going into liquidation and applying through Employment Exchanges
- Personnel retrenched from Government Offices after at least one year's service and applying through Employment Exchanges
- SC/ST candidates.
- Ex-servicemen (including Emergency Commissioned Officers/Short Service Commissioned Officers) provided applicants have rendered at least 5 years' continuous Military Service and have been released on completion of assignment (including those whose assignment is due to be completed within one year) otherwise than by way of dismissal or discharge or discharge on account of misconduct or inefficiency or on account of physical disability or have been released on account of physical disability attributable in Military Services or on invalidment.
- Emergency Commissioned Officers/Short Service Commissioned Officers who have completed their initial period of assignment of five years of Military Service but whose assignment has been extended beyond five years and in whose cases the Ministry of Defence issues certificates that they would be released on selection within 12 months from the date of receipt of offer of appointment

Note: However cumulative age relaxation will not be available. Save as provided above, the age limit prescribed shall in no case be relaxed.

G. EXAMINATION/INTERVIEW - GENERAL INSTRUCTIONS

- All those sending their applications with prescribed fee (unless specifically exempted) within closing date will be admitted to Written Examination.
- Candidates applying for the post of Staff Officers in Gr. 'B' and Research Officers in DEAP and DESACS have to qualify in the Objective and Descriptive type papers separately. The Descriptive paper will be assessed only of such candidates who score in the Objective Test sufficiently high marks in order of merit. The candidates for the above posts as also for Legal Officers who score sufficiently

high marks in order of merit on the basis of aggregate marks in the Written Examination will be eligible to be called for interview. The merit for this purpose being decided by the Board on the basis of the number of vacancies to be filled up. Final selection will be on the basis of the candidate's performance in the Written Examination and interview taken together.

- Question papers for Written Examination for Research Officers in DEAP and DESACS and for Legal Officers will be set in English and answers must be written in English.

H. EXAMINATION CENTRES

Written Examination will be held at the following centres. The Code Numbers are in brackets, Ahmedabad (11), Bangalore (12), Bhopal (13), Bhubaneswar (14), Bombay (15), Calcutta (16), Chandigarh (17), Guwahati (18), Hyderabad (19), Jaipur (20), Jammu (21), Kanpur (22), Madras (23), Nagpur (24), New Delhi (25), Patna (26), Trivandrum (29). Candidates can select only one centre and must indicate the centre and the code number in the App. The candidates admitted to the Written Examination will be intimated the date, time-table and venue of Written Examination by an Admission Letter. The centres and dates of the Written Examination are liable to be changed at Board's discretion. Request for change in the centre will not be entertained.

I. EXAMINATION FEE

Rs. 50/- (Rupees fifty only) for each post payable separately. No fee for SC/ST candidates. Fee is payable by way of Demand Draft in favour of Reserve Bank of India payable at Bombay. However candidates from unbanked areas may pay in by crossed Indian Postal Order in favour of Reserve Bank of India payable at G.P.O., Bombay. Payment in any other manner will not be accepted.

J. PAY SCALE/EMOLUMENTS

Pay Scale Rs. 2400-150-3600-175-4125-EB-175-5175 (for all the posts). Depending upon place of posting total initial monthly emoluments will vary between Rs. 5500/- and Rs. 5600/- at present. (Higher starting Pay may be considered in deserving cases).

K. HOW TO APPLY

Those who satisfy eligibility norms should apply in the prescribed format given below duly completed in all respects and typed or neatly handwritten in Hindi/English on white foolscap paper (of one side only and approximately of 33.5 cms x 21 cms size) after affixing a recent passport size signed photograph on the App. The App. should be addressed to The Secretary, Reserve Bank of India Services Board, Hongkong Bank Building, 6th Floor, Mahatma Gandhi Road, Hutatma Chowk, Post Bag No. 10009, Bombay-400 023, along with attached copies of certificates in support of caste (for SC/ST) age, eligibility qualifications and experience (documentary evidence also in support of age relaxation claimed, if any) and accompanied by a self-addressed envelope with H.E. 1/- stamp. The cover containing the App. should be superscribed "App. for the post of _____ Centre ** _____ Code No. _____" and sent by ordinary post only.

* Name of the post applied for.

** Centre for Written Examination chosen by the candidate. Those who intend to apply for more than one post must send separate App. for each post with the prescribed fee separately if payable. A combined App. or combined fee for more than one post will be treated as invalid.

L. CLOSING DATE

The completed App. with enclosures must reach the Board's Office at Bombay on or before 1st November, 1993 (16th November, 1993 for applicants residing abroad, in Ladakh Divn. of J & K State, Sikkim, Pangong Sub Divn. of Chamba, Lahaul and Spiti districts of Himachal Pradesh, States/Union Territories in the North Eastern region and in the Andaman and Nicobar Islands and Lakshadweep). Apps. received after the closing date will not be considered. Applicants who intend to send their Apps. by post are advised to despatch them well in advance of the closing date to avoid possible postal delay.

Candidates may drop their Apps. in a closed cover in the box specially kept for the purpose near the entrance to the Board's Office.

Note: The above posts are also open to staff candidates who satisfy the eligibility criteria separately laid down by the Bank for them and who apply within the stipulated date.

CANVASSING IN ANY FORM WILL BE A DISQUALIFICATION.

M. FOR FURTHER DETAILS REGARDING ELIGIBILITY SCHEME OF SELECTION, SYLLABI, SERVICE CONDITIONS, CAREER PROSPECTS, GENERAL INSTRUCTIONS ETC. CANDIDATES SHOULD REFER TO DETAILED ADVERTISEMENT APPEARING IN THE "EMPLOYMENT NEWS" AND "ROZGAR SAMACHAR" DATED 9TH OCTOBER, 1993.

Continued on Page No. 2048

(Continued from Page No. 2047.)

RESERVE BANK OF INDIA SERVICES BOARD, BOMBAY

Advt. No. 1/93-94

1. Post applied for : _____
2. Examination Centre : _____
Code No : _____

Affix a signed copy of your recent passport size photograph 5 cms x 7 cms

3. Particulars of Demand Draft/Postal Orders enclosed.

Denomination of Postal Order(s)/Name of Drawee Bank	Postal Order(s)/DDs details (no., date., etc.)	Amount (Rs.)
	Total :	

4. Name : Shri/Smt./Kum : _____
(in block letters)
5. Date of Birth :

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1	9		
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6. Age (as on 1.9.93) : _____ Years _____ Months _____ Days
Details of age relaxation claimed, if any (give particulars with Documentary evidence)
7. Postal Address for communication with Pin Code : _____
Nearest Railway Station : _____
8. Indicate the category to which you belong by : ☒
A. General (G) ☐ Scheduled Caste (C) ☐ Scheduled Tribe (T) ☐
B. For the post of Staff Officers in Gr. 'B' only.
Chartered/Cust Accountant ☐ Computer Science/Applications Graduate ☐ Commercial Bank Officer ☐
C. Staff : Yes/No Ex-serviceman Yes/No Migrant/Repatriate Yes/No
9. Permanent Address with Pin Code : _____
10. Academic Qualifications (Graduation onwards)

Examination Passed	Year of Passing	University/Institute	Subjects offered	Division with % marks

11. Details of Experience, etc.

Name and address of employer	Designation	Period			Nature of experience
		From	To	Total	

N.B. For the post of Legal Officer - In case of practising advocates, copy of the Bar Council Registration certificate and certificate from Bar Association of which the candidate is a member should be produced.

12. I hereby declare that all the statements made in this application are true, complete and correct to the best of my knowledge and belief. I understand that, if at any time, it is found that any information given in this application is false/incorrect or I do not satisfy the eligibility criteria according to the Board, my candidature/appointment is liable to be cancelled/terminated. I have also read and understood the rules of the examination as given in the 'General Instructions'

13. Place : _____
Date : _____

Signature of applicant

Atul Glass Industries

THE flagship company of the Atul Glass group of companies, Atul Glass Industries has shown good results for the year ended March 31, 1993. The rise in the company's profit after tax from Rs 21 lakh last year to Rs 44 lakh has pushed up its EPS to Rs 3.40 and book value to Rs 21 per share. With turnover expected to cross Rs 35 crore in 1993-94, the company has once again diversified its operations by setting up an edible oil refinery with an installed capacity of 15,000 tonnes per annum at Alwar in Rajasthan. The project has already commenced commercial production and the product, 'Atul' refined oil, has been well received in the market. The company plans to launch the product in small packs very soon. To finance the project, the company has planned a Rs 2.63 crore rights issue of equity shares to be offered in the ratio of two shares for every one held. The issue has been cleared by SEBI and is slated to open on October 11.

Kalyani Steels

The company is implementing a seamless tube project at Baramati and trial runs are in progress for its cold mills. Core machinery, a hot mill supplied by Mannesmann Demag Huttentechnik of Germany, is being erected at site and will be commissioned by October. The company's product has been accepted in the domestic and international markets. The company has performed well in the year ended March 31, 1993 despite the recessionary trends in the industry, with total income growing by 20 per cent. Further, with its net profit rising by 40 per cent over the previous year, the company has proposed a dividend of 50 per cent. It is now planning to modernise and rationalise its steel mill at Mundhwa in Pune to improve production capabilities for better yields. To part finance its expansion programmes, the company is now planning a rights issue aggregating Rs 5.45 million (subject to such consents as may be necessary). The equity shares to be issued at Rs 50 premium will be offered in the ratio of three shares for every five shares held. The debenture holders who have exercised their right attached to detachable warrants will also be eligible for the rights issue.

Indo Count Industries

Promoted by Anil Kumar Jain (chairman and managing director), Indo Count Industries is a 100 per cent export-oriented unit engaged in cotton spinning. The company has shown good results for the first full year ended March 31, 1993. With total income almost touching Rs 25 crore (Rs

15 crore), operating profit has more than doubled at Rs 7.5 crore (Rs 3.7 crore). After providing Rs 2.5 crore for depreciation and Rs 3 crore for interest, net profit has soared from Rs 34 lakh last year to Rs 2 crore. Keeping its expansion programmes in mind the company has skipped dividend and the entire net profit has been carried forward to the balance-sheet. The company has installed and commissioned all 26,208 spindles which were envisaged at the time of its public issue and has also further expanded the installed capacity by another 6,048 spindles and added balancing equipment. It is now planning to diversify its operations by installing knitting machines of yarn and also further enhancing its capacity by another 32,256 spindles for spinning cotton/synthetic yarn. A letter of intent has been obtained for this purpose. The expansion programmes are to be financed through internal accruals and further equity/loans.

Vintron Industries

Vintron Industries, jointly promoted by Vintron Electronics, Ritika Electronics and R K Gupta and his associates, is implementing a project to manufacture 5.25" and 3.5" floppy disk drives (FDDs) with a capacity of 50,000 units and monochrome computer monitors with an installed capacity of 60,000 units per annum at Okhla Industrial Area in New Delhi. FDDs produced in the country have hitherto mainly been in the conventional 5.25" size. The site is well located with access to major computer manufacturers and markets along with the requisite infrastructural facilities. Vintron Electronics, one of the promoters, was ranked No 1 in the country in the manufacture of add-

on-cards for the second consecutive year, whereas Ritika Electronics is a leader in the manufacture of computer keyboards in India and holds a 25 per cent market share. R K Gupta, a mechanical engineer and promoter of Vintron Electronics and Ritika Electronics, has been associated with computers and peripherals and components for over 19 years. In addition to a collaboration agreement with Safronic Corporation of Japan for the manufacture of 5.25" FDDs, the company has also entered into a collaboration agreement with the well known Sony Corporation of Japan for the manufacture of 3.5" FDDs. To manufacture international quality products the company is importing state-of-the-art plant and machinery required from leading machinery manufacturers in Japan, Switzerland, Italy and Taiwan. The company has already commenced assembly operations and achieved a turnover of Rs 10.5 crore for the year 1992-93 and had sold 24,053 FDDs and 26,658 monitors till July 31 this year to renowned computer manufacturers, including HCL, Hewlett Packard, Altos India, Modi Olivetti, Zenith Computers, Crompton Greaves and Sterling Computers. Machinery is to be delivered by December and commercial production is to commence in February 1994. The Rs 8.9 crore project is to be financed through equity of Rs 5.2 crore and term loan of Rs 3.7 crore from Industrial Finance Corporation of India, the project appraiser. To part finance the project the company will enter the capital market soon with an issue of 51,69,300 equity shares of Rs 10 each out of which 26,69,300 equity shares are reserved for promoters, their relatives and friends and the remaining 25,00,000 shares will be offered to the public.

Oxfam (India) Trust

Oxfam (India) Trust seeks Programme Co-ordinator for Community Organisation and Forestry Programme in Uttara Kannada district. Minimum three years experience of Community organisation work in rural areas essential. Experience of forestry and micro planning of natural resources desirable. Good knowledge of Kannada or Marathi and English essential. Please reply with CV by 30th October, 1993 to:

Oxfam (India) Trust,
38 Paiga Colony, S P Road,
Secunderabad - 500 0033

RANDOM REFLECTIONS

Saving, Investment and Interest Rates

Arun Ghosh

Four basic questions of great relevance to the Indian economy today.

THE government of India has, from the mid-80s generally, been following the advice, guidance and the words of wisdom emanating from the World Bank/IMF and the pundits from the US. From the mid-80s, the then prime minister of India, Rajiv Gandhi, seriously heeded the advice of the then president of the World Bank, Barber Conable, that India should speed up borrowings from 'commercial banks' from abroad in order to speed up the rate of growth of the economy. This was the period when the present finance minister, Manmohan Singh, was deputy chairman of the Planning Commission, and S Venkitaramanan (later, governor of the Reserve Bank of India) was finance secretary in the union government. Both of them actively implemented this policy.

What subterfuges did we not resort to? The IOC, the IPCL, the BHEL, and many other (highly rated) public sector enterprises (PSEs) were literally bullied into borrowing from abroad, *not* in order to meet *their* requirements of foreign exchange (to finance their investment) but in order to shore up the foreign exchange resources available to the government of India, which was intent on pushing through a policy of import liberalisation and of (mindless) assembly of elitist consumer goods in India. The State Bank of India also chipped in—with an A1 rating—to provide the necessary guarantees for such borrowing even by less credible PSEs. With import liberalisation, the index of industrial production was revised, and a few declining (or stagnant) industries dropped from the index (with 1980-81 as the base), and new so-called 'sunrise industries' included in the index for the first time. In the absence of a Census of Manufactures, the value added by these industries could not be ascertained. No matter. The gross value of output of these industries was used in order to allocate the *inter se* weights for these (newly included) industries within the overall groups wherein they belonged, for which, thanks to the insistence of some technical experts, the weighting diagram was still based on the value added concept.

The above is a somewhat tricky technical concept (which would be understood by technical experts) and we need not pursue it. But the immediate result was a spectacular increase in the index of industrial production in the late 80s, as a result of the phenomenal increase in assembly operations for many of these 'sunrise' industries, like

consumer electronics.

And what kudos were not heaped on the economic policies of the government in the late 80s by the media? The economy was on a growth path higher than the earlier 'Hindu' rate of growth of 3.5 per cent per annum for the first time since independence. A few people who kept issuing warnings of an impending balance of payments crisis were dismissed as pessimists of yesteryear. And even though both the *Economic Survey* (issued by the ministry of finance) and the *Currency and Finance Report* (issued by the Reserve Bank of India) kept bemoaning the widening of the budgetary deficit of the union government year after year, as well as the burgeoning deficit in the balance of external payments, these were never taken seriously either by the government or by the lay reader. What if a few experts were worried? Were not our policies being hailed by the IMF and the World Bank? After all, the White Man's word is always more authentic than that of the best of the browns. (That dictum unfortunately holds good even today; we are thrilled when the London *Economist* compares India to an uncaged tiger, or an elephant awakened from its slumber.)

Most people, we realise, have no patience for detailed statistics. Still, a few broad figures would be in order here. Domestic saving which had exceeded 24 per cent of GDP in 1978-79 had declined to 21.2 per cent in 1980-81, and to 19.5 per cent by 1986-87. The import liberalisation programme with imported saving was in full swing by 1986-87. Though saving improved marginally thereafter, the overall rate of gross domestic saving was no more than 21.9 per cent in 1988-89. (These figures are all taken from the CSO, as per their latest *National Accounts Statistics*, 1993.)

That the saving rate *declined* while GDP was growing at a fast rate is a matter which, CSO data reveal. The *reasons* have to be sought through detailed analysis of sectors which grew (or where incomes grew), sectors which saved, and the like. One knows that over the 80s, farm investments declined; industrial and trading incomes increased. One does not quite know the sectoral origin of saving. Let us leave it at that. Let us also leave out for the present the strange fact of domestic saving having climbed back to more than 24 per cent in 1991-92, with continued budgetary and balance of payments deficits.

In the late 80s, we had erudite lectures

from 'supply side economists'; India did not need to save more, India could expand—like the US economy—by increased stimulus of demand, and by facilitating increased production of the 'goods in demand'. And the goods in demand were what the *'nouveau riche* tax-evaders (and their children) wanted. Demand for luxury goods burgeoned. Profits soared. Business (in the metropolitan areas) boomed.

The rest is history. When the Planning Commission under Ramakrishna Hegde sought to consolidate the economy, and to draw up the Eighth Plan with a 5 to 5.5 rate of growth of the economy, it was greeted with derisive laughter and gibes by the media. Well, that laughter did not last long; the Gulf war, the rising cost of oil imports—for which demand had been increasing in an unremitting manner—brought the country down to its knees in the summer of 1991. When Rajiv Gandhi did not allow the annual budget for 1991-92 to be presented to parliament in February 1991 (by a puppet government), the loss of confidence and the flight of short-term capital (encouraged earlier by the likes of Barber Conable) brought India to the brink of bankruptcy. It was left to Manmohan Singh to beg the IMF/World Bank to bail India out in June 1991.

One can understand the predicament of the government at that time, though even then there were clear alternatives. But it is useless to speculate on alternative paths not chosen in the past. We managed to get external support with severe 'conditionalities' attached. But the totality of domestic policies adopted since is bewildering. One can understand the young upwardly mobile puppies—I have slightly varied the commonly used term—asking 'what is the alternative?', because they stand to gain as *compradors* and to lose if India were to tell international finance capital to get lost. We can afford to do that today. But the pressure for the 'reform of the financial sector'—which is unconnected with balance of payments deficits—is what takes one's breath away; and that is where international finance capital is now beginning to show its ugly wolf's teeth inside sheep's clothing. We would revert to this issue later, though only briefly.

Let us hark back to a somewhat old issue of the *Business Week* of New York (dated May 3, 1993) and an article therein titled 'Amazing What Borrowing Low and Lending High Will Do'. To quote from the *BW*, "...the nation's largest banks found making money in 1992 as easy as withdrawing cash from an automatic teller machine. The chasm between banks' low short-term funding costs and their return from much higher yielding long-term investments and loans virtually guaranteed a huge boost in profits. Net income for the 100 largest US banks...

more than doubled... First quarter 1993 results have been strong as well..." (p 64).

One should change the title for India, and one should really seek an essay on the issue: 'Amazing What Aping the West Can Do'. But then, are we really aping the West? (The banks' borrowing rate in the US is 3 per cent; the prime rate, of borrowing from the Federal Reserve Bank, only 6 per cent.) Or are we mere puppets where the strings are being pulled, as in a puppet show, by an invisible hand?

Let us ask four basic questions. It would take too long to expound on all these issues, but one should really pursue these four questions, because they are of great relevance to the Indian economy today.

The questions, then: (1) Why do we have an interest rate structure (and a set of fiscal policies) wholly unsuited to economic growth, favouring increased saving in financial assets, to the detriment of real investment in the economy? (2) Why do we want to open up the economy for inflows and outflows of short-term foreign capital? (3) Why do we want to (a) privatise the banking and insurance sectors (forgetting the Vivian Bose Commission report, unmindful of the fact that it was an arch conservative, the late Chintaman Deshmukh, who nationalised private life insurance business for good reasons); and (b) give up control over credit as the means of directing investments in the economy to socially useful sectors, as well as in the interest of the considerable (small-scale) farming sector and the tiny manufacturing units? Finally, (4) why do we want to raise the rate of interest to levels well beyond the productivity of new investment in almost all productive sectors of the economy? What is the rationale for the present absurdly high rates of interest in India? Has the high rate of interest prevented the use of capital-intensive methods of production? Or has it, on the contrary, helped to starve small businesses from functioning? Is the rate of total saving in the economy a function of the rate of interest? And finally, is the higher mobilisation of financial saving of households (at the cost of direct physical investments by households as well as at the cost of higher saving by government) led to a more efficient pattern of investment in the country?

As a post-script, after this piece was written, it should be stated that the Reserve Bank has recently reduced the minimum lending rate by one per cent. In fact, over the past year or so, the interest rate structure has been reduced in four stages by four percentage points. This should be seen as a recognition by the authorities of the earlier mistake of making the interest rate do the duty of fiscal tightness. But even today, the borrowing rate for the small borrower remains absurdly high, at around 20 per cent, while fiscal discipline remains a distant dream.

The rationale for the high interest rate

structure in India is simple. It is simply part of the IMF theology in regard to 'stabilisation'. In a developed country, a balance of payments deficit indicates excess of demand at home. Raise the rate of interest, and investment demand is expected to slow down. At the same time, the high rate of interest would attract short-term capital funds—of which there is now a plethora, always seeking to make a profit—and, hey presto, your balance of payments problem is resolved. The crisis in the ERM today arises because Germany would not cut its interest rate. The sterling collapsed; Italy devalued. So did Spain and, of late, the French franc has been under pressure. But the Germans are unwilling to oblige with a cut in the German rate of interest.

All this is not relevant; but what *is* relevant is that the interest rates in India are horrendous. The *minimum* lending rate of banks is 18 per cent; and the small businessman cannot get a loan at less than 20 to 25 per cent interest, depending on the collateral he can offer. The rate earned by banks even on government securities has now touched 13.5 per cent. And what is the rate of interest paid out by banks on their deposits? One does not know the precise overall average, but the rate varies from 5 per cent on savings deposits to 12 per cent on time deposits. Blue chip companies would pay 14 to 15 per cent on (uninsured) time deposits.

If, despite the above situation, most banks are in a somewhat dubious position, the reasons are two-fold. First, banks have been making doubtful loans, primarily to large units. Secondly, of late, with large funds available in the form of time deposits, the banks find few takers for loans at the horrendous interest rates demanded. The result: the banks are setting up more and more of mutual funds, and dabbling in the securities market. Under the bullish conditions engineered by the likes of the late M J Pherwani and Harshad Mehta, foreign banks had made a killing on the stock exchange in 1991-92. In a book on Calculus, Sylvanus Thompson had a maxim: 'What one fool can do another can'. But the maxim does not quite hold in the stock market; the wise make money while the fools get hooked. And any number of banks (and mutual funds) have found themselves hooked properly. And therein—in the gross manipulation of the hard earned savings of households—lies the 'scam'; the attempt to cover up impossible 'short' positions led to 'fraud' (by way of issue of forged Bankers' Receipts, and so on), and thereby hangs a long tale of enquiries (pace the Janakiraman Committee) and more high-powered investigations (by the JPC).

In all this, two simple facts are missed out. First, the entire sordid tale arises from the stupid—yes that is the only word, stupid—economic policies of the government of India. Secondly, that stupidity is now get-

ting into the stage of mulish obduracy.

Starting with the Narasimham committee report on reform of the financial sector to the ongoing study by the R N Malhotra committee on what to do with the insurance sector, the government of India is dutifully dancing to the tune of the Pied Piper in Washington, DC. Why else do we have a committee to look into the reform of the insurance sector today? How is that connected either with the government's fiscal deficit or the country's balance of payments deficit?

Let us conclude with some hypotheses—in respect of the diverse critical issues raised—even though these hypotheses have not been tested out by painstaking quantitative analysis.

Qn 1: Why do we have an unsound interest rate structure (and similar fiscal policies, like exemption of deduction at source of tax on interest income, no wealth tax on financial assets, reduced capital gains tax, etc)?

Hypothesis: This is the typical broad-spectrum antibiotic prescribed by the IMF for all ailments. One can say the sample (of countries) on which this hypothesis has so far been tested is less than a hundred, with a success rate of some 2 per cent.

Qn 2: Why do we want to open up the economy to inflows and outflows of short-term foreign capital (without even current account convertibility)?

Hypothesis: The finance ministry is still under the illusion that foreign capital inflow (of the type we see in China today) depends on such inanities.

Further hypothesis: The finance ministry has not learnt its lesson from the flight of NRI capital between October 1990 and October 1991. Did not some one say: the only lesson that history teaches us is that history teaches us nothing.

Qn 3: Why do we want to privatise banking and insurance?

Two hypotheses, here, not necessarily independent. *One:* the decision has been made in Washington, DC. *Two:* this opens up the possibility of large profits being made by a few people (with prior knowledge of what is about to happen, and with enough cash—or cash support of others—to exploit the situation). In this particular instance, the dangers are greater than the danger of mere losses incurred by the government (in the act of sale) as happened with PSUs in the past. We are now proposing to hand over the credit mechanism of the country back to the sharks criticised by the Vivian Bose Commission.

Qn 4: What is the rationale of the absurdly high rate of interest on financial saving? And does larger financial saving by households (at the expense of real investments) reflect progress?

Well, the last question raises large issues which call for a separate essay. In any case, we must not tire the reader with too many facts, figures and hypotheses, without a full and proper analysis of all available data

COMMENTARY

Politics as Religion Constitution (Eightieth) Amendment Bill

Upendra Raxi

The logic of delinking politics from religion is directed to preserving the integrity of religious traditions from the contaminating impact of the sordid practices of power. No political party is likely to see it that way, so long as it sees legislation as a passport or as a threat to power. But conscientious citizens have no such alibi for not perceiving the deep structure of political development which has prompted the initiation of these constitutional and legislative changes.

I

THE curtain has gone down on the first act of the play with the deferment of the 18th Amendment and corresponding amendments to the Representation of Peoples Act. The story will develop with further plots. Only the future can tell whether the drama is a tragedy or farce or a multi-genre narrative, like Polonius' categorisation of the play as tragedy-comedy-historical-pastoral. But whatever be the denouement, Indian citizens should feel privileged to be actively engaged in analysing the cast, character, choreography and contents of this great show.

Intellectuals, opinion-makers and political actors have been as furious in denouncing the amendment as they were, not too long ago, in interrogating the rathayatra, shilanyas, the December 6, 1992 demolition and the cruel carnage in its wake. Theirs is a familiar role. They clamour for change and when change incarnates itself in policy threatening to become legislation (binding norms of conduct) they oppose it with equal conviction. Everyone deplored the politics of defection, which caricatured democratic legitimacy in the seventies; and yet the anti-defection amendment was vociferously opposed as being anti-democracy, violative of basic rights (especially, of association and conscience), an assault on the basic structure of the Constitution and a charter of chicanery for corrupt practitioners of power. Similarly, fervent pleas were made for well over two decades to abolish the right to private property and install a fundamental right to work; when this proposal threatened to take the shape of a constitutional amendment, even the most progressive section of opinion drowned it by massive genuflection. Everyone admires, and even adores, Nalini Singh for her relentless expose of the unfair and free electoral process; yet the same class of people were thunderous in their denunciation of the Election Commission's postponement of all elections till its mini-

mal functional autonomy was ensured. It is not a matter of surprise that 'pseudo-secularists' and 'cultural nationalists' both should have so vociferously denounced the recent amendment proposals.

It is not my purpose, however, to analyse this peculiar phenomenon, manifesting the syndrome which Ranajit Guha describes with elegant offensive as the "mediocre liberalism" of post-colonial India. Rather, I trace the dynamics of the plotting of change on a limited canvas: the proposed amendments in the light of the Parliamentary Joint Committee's report submitted on August 20, 1993 in a record 15 days. The 35-member committee had eight dissents (Satya Prakash Malaviya, Mehtay Padmanabhan, George Fernandes, B Ahmad, and a collective note by I. K. Advani, Jaswant Singh, Sikandar Bakht and Guman Mal Lodha).

II

The Joint Committee as a whole is practically unanimous on insertion of a new provision in Part III of the Constitution (renumbered as Article 24-A as against the proposed Article 29 A). The original formulation was: "The state shall have equal respect for all religions". The committee adds to this the provision that "the state shall not profess, practice or propagate any religion". The BJP dissent note wonders about this addition and its consequences in government institutions, and those in government. It asks whether the lighting of a lamp at state ceremonies becomes "a constitutional embargo". (A controversy on this issue raised by the Muslim League in Kerala is recalled by the note.) Will the "Doordarshan coverage of Diwali, Id, Christmas or Guru Nanak Jayanti violate the Constitution?" The BJP dissent note describes this addition as not merely 'pseudo-secularist' (blaming here the Marxist variants) but also as 'anti-religion'. Clearly, the dissent note carefully avoids distinguishing between 'religion' and 'culture'

The second proposal in the amendment is Article 35-A. It empowers, notwithstanding anything in the Constitution, parliament to provide by law

that any association or body of individuals be banned if it, by words, either spoken or written or by signs or by visible representations or otherwise, promotes or attempts to promote disharmony or feelings of enmity, hatred or ill-will between different classes of citizens of India—

- i) on the grounds of religion, or
- ii) on the grounds of race, place of birth, residence, language, caste or community.

In its place, the committee by a majority, suggested the addition: Clause 28-A to the Eightieth Amendment, empowering parliament or state legislatures to ban associations or bodies if they promote or attempt to promote on the ground of religion, disharmony or feelings of enmity or hatred or ill-will between different religious groups. This was, rightly, castigated by dissenters as anti-democratic, especially as it empowered state legislatures to ban associations and omitted the exclusive jurisdiction of the Supreme Court. The BJP dissent note, rightly, characterised it as a "body blow to the citizen's sacred right to association" (although it is a 'secular' rather than a 'sacred' right and subject to parliament's power to reasonable regulation). George Fernandes, rightly, criticised the joint committee's proposal on the practical ground that if it were to be accepted, a "party in power at the centre may find itself banned in one or more states for the right or wrong reasons", with the potential for setting in motion "a whole chain of events threatening the very unity of the country". Certainly, the joint committee's proposal was 'ill-advised' on grounds of principle and expediency and in the final result detrimental to the maintenance of the centralised unity of state power.

This amended proposal, especially the removal of clause (ii) above causes vehement opposition to the amendment. It escalates the cogency of the BJP dissent note. The BJP was opposed to the original formulation; it is now also opposed to the amendment. The original amendment was bad, indeed evil, insofar as it sought to banish religion from public life; the committee's amendment is bad because it does not disallow passion based on "caste, community or faith". We analyse the logic of this dissent a little later.

The joint committee drops clause (c) of Article 35-A which had sought to exclude the jurisdiction of all other courts, save the Supreme Court, over issues of banning such activity or associations or of forfeiture of their property or assets. This compromise does open up various possibilities of lei-

surely contestation and divergent interpretations. The judicial power and process should give a pause to a ban-happy governance.

Articles 102 and 191 add two disqualifications: a member of parliament shall stand disqualified if

—she, after taking the oath, promotes or attempts to promote feelings of enmity, hatred or ill-will between different classes of citizens, makes use of religion, including religious symbols, for the purposes of elections;

—she promotes or attempts to promote feelings of enmity, hatred or ill-will between different classes of citizens on the grounds of religion, race, caste, community or language.

The joint committee deletes this last set of grounds in its formulation of Article 102-A and Article 191-A and further provides that notwithstanding anything in the Constitution, parliament may by law provide for an authority to determine such disqualification. The report does not disclose grounds (other than the possibility of judicial review) for omitting reference to grounds other than religion.

George Fernandes opposed these proposals on the ground that they "strike at the root of our democratic institutions and parliamentary democracy". In the long run, the amendments in Articles 102 and 191 "may even pave the way for one-party democracy". The amendment may "in the hands of an unscrupulous and unprincipled Executive, become a curse on the people". The potential for mischief was so grave that Fernandes invokes the perversion of the Weimar Constitution by Adolf Hitler. (This ground was named in the Supreme Court discourse in *Golak Nath* as the 'argument of fear'.)

The BJP dissent note encashes the Fernandes thesis, applying it straightaway to the 'forthcoming assembly elections' for which these amendments are being 'forged' as 'anti-democratic weapons'. It equates these with the Emergency amendments, but invokes the recurrence of history. It, however, cannot suppress the hope that the same alienation which afflicted the ruling party then will revisit the ruling party.

III

Let us turn now to the proposed reformulations of the Representation of Peoples Act (RPA). First, the amendment prohibits by Section 27-A(7) the registration of a political party if (i) the 'association or body bears a religious name' or (ii) the memorandum or rules and regulations of such an association or body do not conform to the provision of sub-section (5); the Supreme Court of India alone is empowered to review such determinations, if an appeal is made to it within 30

days or if the court finds that there is 'sufficient cause' to entertain a delayed application. Though there was dispute on the phrase 'religious name', the Joint Committee by a majority adopted this amendment. George Fernandes does not seem to oppose in principle this amendment. He suggests that the Election Commission should, upon a complaint from 'any source', call for an explanation from the concerned political party, issue a show cause if the explanation is unsatisfactory and, finally, subject to review by the Supreme Court, decide after hearing all parties.

The second RPA amendment seeks to provide by Article Section 29-B the power in high courts, on grounds of Section 29-A, to cancel registration of political parties. The joint committee by a majority approved of the changes. It is clear that neither the Fernandes nor the BJP critique persuaded other members to re-examine the proposal.

The BJP dissent note draws attention to the recent Justice Bahl Tribunal decision on Prohibition of Unlawful Associations Act. It also insists that the RPA amendments violate the 'panchshila' of free and fair elections; which it presented as follows:

- (i) elections must be free and fair;
- (ii) elections must determine the sovereign will of the people;
- (iii) a multi-party system is a part of the basic structure of the Constitution and the law should not strive to convert this into a single-party set-up;
- (iv) once the poll process starts, it must proceed unhampered; not even the Courts can intervene;
- (v) there must be judicial review of electoral malpractices and that too by an election petition to be decided by a judicial authority.

The proposed amendment violated the panchshila of free and fair elections in every respect.

The panchshila is important as a general ethical code. But high principles justify radically opposed outcomes. For example, it can be also argued that appeals to religion stand foreclosed by (ii); and that (iii) is better ensured by delinking now, lest a religion-based party winning at the hustling may convert India into a 'one-party set-up'. This has happened in many Islamic countries (though not only there) in the recent past.

IV

The bill has been deferred, but the outlines of act two of the play are becoming discernible, if one is to take prime minister Narasimha Rao's recent announcement at the Congress parliamentary party meeting seriously. Of course, there are difficulties in taking the prime minister's daily pronouncements seriously, as it appears that he does not himself perhaps take the bill seriously.

He has stated that if the constitutional amendment does not "garner" support, the RPA bill would be considered at a "special session of Parliament". That the requisite support for a constitutional amendment is unavailable is not exactly unknown. And to suggest that only the RPA amendment may be enacted is to invite (if this is what is meant by 'politics of consensus') challenges to the amendment before the Supreme Court, which it may find difficult to sustain without the proposed constitutional amendment, notably Article 35-A and Article 24-A. 'Secularists' and 'pseudo-secularists' and 'cultural nationalists' will on this game plan simply populate the precincts of the Supreme Court for a number of years.

But let us attend carefully to the voice of the 'cultural nationalists'. The BJP dissent note attacks the bill with the forceful charge of 'cultural rootlessness'. This is a discursive move not met by other members of the committee. The dissent note makes several formidable points. First, it points to the difficulty of translatability of 'religion' as 'dharma'. It objects to the Hindi version of the bill which translates it as dharma; banishing "religion from public life is bad enough, but the very concept of ousting dharma from public life would shock the average citizen of our country". Second, the bill makes no attempt to define religion or religious symbolism, "laying these concepts open to arbitrary interpretations". That "logic in these lapses" lies in the reduction of dharma to mere religion, uncharacteristic of Hinduism. Third, dharma "symbolises both the personal and public code of ethics, the ability to distinguish between the just and the unjust" in a way perhaps 'religion' does not. Dharma "embraces a public space much greater than religion; it is a living code of ethics for all spheres of existence". Fourth, if the outlawing of religion as dharma is pernicious, any "allusion to the Mahabharata or Ramayana—even Ram Rajya" would become "electoral offences". To drive home the point, the BJP argues that Mahatma Gandhi, Aurobindo, Lokmanya Tilak and Lala Lajpat Rai—had they been alive—"would have been transformed into political outlaws".

The gravamen of the BJP objection is that "what the government and its allies" (the latter being 'Marxists' and 'pseudo-secularists') contemplate "is not merely a rootless India, but an amoral, even immoral India". This is understandable because of their "paranoia over the resurgence of cultural nationalism", the latter having been caused by "the politics of pseudo-secularism based on minorityism". The tragic internalisation of the "colonial stereotype" of Hinduism (as entailing a mixture of religion with politics) contributes "dangerously to cultural rootlessness". The BJP

abjures this attempt to take the soul out of India. For us, nationalism and culture are inseparable; they are bound by a symbolic relationship. The BJP disavows any attempt to create a theocratic state in India. It also rejects any attempt to pit Indian against Indian on the grounds of caste, community, language and faith. We view all Indians as equal citizens of the republic who must be governed by the same set of laws.

The dissent is emphatic on the point that it "takes much more than legislation to make a vibrant nation" which is able to "live up to its potential". And that potential is provided by nationalism. And in turn nationalism is energised by our cultural inheritance. Given these promises, it is but natural that the inheritance is one derived from the

Vedas, the Ramayana, the Mahabharata, Gautam Buddha, Lord Mahavira, Adi Sankaracharya, Guru Nanak, Maharana Pratap, Shivaji Maharaj, Rani Laxmibai, Swami Vivekananda, Swami Dayanand, Lokmanya Tilak, Mahatma Gandhi, Jayprakash Narain and countless other national heroes. This nationalism is also our dharma. (Emphasis added.)

The "countless other national heroes" presumably include Sant Ravidas, Jyotiba Phule, Babasaheb Ambedkar, Kabir, Mira, Narsimha Mehta, Narmad, Ram Mohun Roy, Pandit Iswarchandra Vidyasagar, the sufi and bhakti leaders. But the references to the Vedas and Hindu epics cannot be stretched to include the Koran, the Zend Avesta, the Bible, the old Testament and countless texts and oral traditions of indigenous peoples. Whether or not the BJP abjures a theocratic state, cultural rootedness necessarily implies and entails Hindu hegemony.

This is the Achilles heel of the BJP dissent note. If dharma is more than religion, if it is to help us to determine the 'just' from the 'unjust', and to guide public policy and political process, then the Islam, Christianity, Zoroastrianism, Judaism, and immemorial religious traditions of indigenous peoples must also form a part of dharma. The 'average citizen' would be equally shocked by an identification of dharma with Hindu dharma. They would perhaps value 'cultural rootlessness' over a 'Hindutava' based on such unidimensional 'cultural rootedness'.

But the BJP must be given full credit for having so authoritatively defined 'culture' and 'nationalism' in a parliamentary document. It must also be given credit for raising the warning of its determination to litigate any law which seeks to delink 'religion' from 'politics' on the ground that its own notion of dharma are both wider (and narrower) than religion. This latter prospect should not be unwelcome. The Supreme Court of India is not a stranger to resolving the complexities and contradictions embedded in religion as politics and politics as

religion. It has with it the doctrinal arsenal of the basic structure of the Constitution, which includes 'secularism'. Justice H R Khanna in *Indira Nehru Gandhi* specifically included 'secularism' in his version of the basic structure, though post-retirement amnesia led his lordship to inveigh against the delinking bill.

On the BJP's own premise, however, there exists a case for delinking. If the Hindu cultural inheritance is to be prettles — 'amoral', 'immoral', 'corrupt', 'anti-democratic' as they are — must not any 'anti-democratic' as they are — must not any longer be allowed to deface, defile, and desecrate the core of Hindu religion. Those who have had the tenacity to hear Uma Bharati's and Ritambhara's hate speeches during the last election campaign (I did not survive even one phase of the tape) would surely know that the invocation disgraced and defiled Hinduism, whatever one means by it. Advani himself had to equivocate — versatile as he is, he was able to accomplish this with temporary success — on the resolve of Sadhu Sansad's determination to have a decisive voice on political issues. And since winning the elections and governing the nation are radically different spheres of political action, the BJP itself (should it form a national government in the future) will have to appreciate the logic of delinking politics from religion. It is doubtful that a future BJP government will be able to stand by 'Hindu inheritance' or 'cultural nationalism' if the Ayodhya syndrome were to spread to Kashi and Mathura. At the end of the day, the logic of delinking is directed to preserving the integrity of religious traditions from the evil, contaminating impact of the present sordid practices of power. No political party is likely to see it this way, so long as it sees legislation as a passport or threat to power. But conscientious and active citizens have no such alibi in perceiving the deep structure of political development, which has prompted the initiation of these constitutional and legislative changes.

The dissent note is more cogent when it cavils at the deletion of race, caste, domicile, language or community from the original Eightieth Amendment Bill. The 'logic' here is politically sensible. If 'you' were to deprive 'us' of the public gains of Hindutva mobilisation, 'you' should also deprive other political formations which would otherwise gain on the grounds of domicile (e.g. Shiv Sena), caste (e.g. Mandalised sections of major political parties), gender (parties favouring or allowing denial of basic human rights to women). The logic is one of political reciprocity in equal access to contest for power. In a deep irony, the BJP dissent note actually pleads for a more secularised politics. Having rejected a theocratic state and

asserted equal rights of all citizens of the Indian republic under the rule of law, the BJP ought to, in all conscience, outlaw religion, caste, community and language from the domain of legitimate politics. But if, as and when it comes to power (and overcomes amnesia which power brings), it were to legislate such an amendment it can expect equally vigorous opposition from these very protagonists of the present amendment!

This see-saw of politics has as its prime casualties the integrity of serious thought as well as political power; a frightening prospect for the nature and future of Indian democracy.

The difficulty, of course, is that it is not politically expedient for the BJP to say now what sort of delinking is desirable or inevitable. The difficulty stands aggravated because it cannot be said later as well, if and when it comes to power. A very genuine difficulty this is but wholly self-created by the Hinduised definition of 'cultural nationalism'. The BJP must problematise this theme for itself if it is to aspire towards national governance. If it does not, politics will for some time to come become a 'dharmayudha' with dharma as its first and prime casualty!

The argument of fear which says that if the bill were to be enacted, politics will come to an end and India will slide into authoritarianism is misconceived. It is true that a certain kind of politics will come to an end. But it is not true that politics as such would come to an end. That politics would come to an end which thrives on exploitation of hapless Indian citizens, which evades the real issues of the lived misery of the material deprivation of the masses of Indian people. What will undoubtedly take its place would be the real constitutional agenda — an agenda pervasively ignored for four and a half long decades: combating illiteracy, gender-based exploitation, slavery, atrocities against scheduled castes and tribes, child labour, violations of basic human rights, reform of state institutions and agencies devoted to ameliorating the plight of the impoverished, electoral reforms, and campaigns not just against corruption but against corruptibility in public life. We, as citizens, should help the emergence of real politics, by seizing the present opportunity of the vicissitudes of political managers, which would displace the pseudo-politics which has dominated us for so long.

[Based on the author's keynote presentation at a National Consultation on Secularism, Institute of Development Studies, Jaipur, August 29-31, 1993.]

E P Thompson

Sumit Sarkar

The outstanding thing about E P Thompson was the way he could combine, throughout his life, passionate political commitment with the highest standards of professional rigour and originality, each feeding into the other, and both communicated through superb prose, meticulously-wrought arguments, and carefully accumulated material.

WITH Edward Thompson (1924-1993) has passed away a rare combination of outstanding historian—perhaps the finest of our times—and creative socialist and Marxian activist and thinker. We shall not see his like again, soon.

Son of another Edward Thompson, ex-Methodist missionary who developed a life-long commitment to Indian liberal nationalist causes and wrote a scathing exposure of British atrocities during 1857, E P Thompson as a fervent anti-fascist fought in a tank brigade during the war (his elder brother, Frank, was killed while helping Bulgarian guerrillas). He was an active member of the Communist Party of Great Britain for a decade, and helped to set up what proved to be the extraordinarily fertile Marxist Historians' Group: fellow-members included Christopher Hill, E J Hobsbawm, and Rodney Hilton, and the group was the seed-bed of the now very famous historical journal *Past and Present*. Along with very many of its most dedicated cadres, Thompson resigned from the Party when it failed to condemn the Soviet intervention in Hungary in October 1956. But his commitment to radical causes only deepened, and took on wider, more imaginative, dimensions. One of the founding-fathers of the New Left in Britain after 1956, Thompson as activist will of course be remembered most for his absolutely outstanding role in peace and anti-nuclear movements: the Campaign for Nuclear Disarmament in the late-1950s and 1960s, and the European Nuclear Disarmament campaigns during the second Cold War of the 1980s which for a few years became a really powerful mass movement. The END had tried to combine the struggle to remove missiles from Europe with broad programmes of democratisation within both power-blocs. It was hardly its fault that the ossified and bureaucratic regimes of 'actually existing socialism' obstructed and delayed reforms till it became too late, and so the eventual collapse of 1989-1991 has shattered, one hopes only temporarily, also the generous dreams of alternative, democratic and humane forms of socialism. Thompson had been warning about such dangers right from 1956 onwards.

Thompson, then, was very far removed from the stereotype of the hasically ivory-

tower, even if at times academically Marxist, professional scholar—and it is symptomatic that he was never offered an University Chair or formal honours in his own country. And yet the outstanding thing about him was the way he could combine, throughout his life, passionate political commitment with the highest standards of professional rigour and originality, each feeding into the other, and both communicated through superb prose, meticulously-wrought arguments, and carefully accumulated material.

A TRUE CLASSIC

Even while very much within the Party, Thompson began elaborating conceptions of socialist history and ideals beyond the limits of Stalinist orthodoxy through a biographical study of William Morris (1955; a much revised edition came out in 1977). But his real breakthrough into the historical world came with *The Making of the English Working Class* (1963), a true classic if ever there has been one, which has inspired generations of labour and social historians across the world. Even its occasional gaps and flaws have at times proved fruitful: thus several distinguished feminist scholars have said that the combination in *The Making of the English Working Class* of a neglect of gender dimensions with the elaboration of tools and concepts clearly very relevant for exploring the greater part of those "hidden from history" set them off on their own distinct but not unrelated paths. (It is not yet widely known, by the way, that Thompson's last major historical work, *Customs in Common*, has gone a long way towards remedying the comparative neglect of gender, which had been a problem in his earlier writings.)

What made *The Making* such a landmark, as well as endlessly controversial, was its largely novel handling of problems of class and class consciousness, backed up by a superbly-presented wealth of empirical detail. Thompson rejected the persistent tendency among many Marxists to make class into a fixed 'thing', to reify it into merely a set of people having a determinate connection with a particular kind of production-relations. From this usually followed an abstract reading-off of what class-consciousness ought to be: if, as has happened much

more often than not; practical experiences did not live up to theoretical hopes, various forms of substitutist vanguardism tended to take over. There could also be that 'enormous condescension of posterity' for movements that did not make the grade in terms of today's standards of ideology or success: teleological frameworks, in other words. A simultaneous rejection of conventionally anti-Marxist 'modernisation' theories was also built into Thompson's work, a dimension not always remembered by his radical critics. Reification of class and class consciousness made empirical 'refutation' easy; alternatively, class reduced into a measurable entity tended to rob the wretched of the earth from the possibilities of agency or creative initiative. This focus on the dialectic of human agency—people living in conditions inherited from the past, and so not of their choice, but still striving to make their own history—remained central to Thompson's writing and politics throughout.

Thus Thompson transformed the whole field of labour history, which prior to him consisted either of narrowly economic debates about rising or falling living standards during the Industrial Revolution, or, among the more radically committed, of studies of trade union or socialist organisations. The new focus on the immensely varied everyday experiences of toilers has now become standard historiographical common sense, and most bright and ambitious postgraduate and research scholars today 'know' that teleology and economic determinism or reductionism are 'bad' things—from which, increasingly, some of them tend to develop a most unfortunate contempt for things thought to be merely 'economic' or pertaining to organised movements. Thompson has been hailed, as well as quite often debunked, as the founder of some kind of 'culturalism'. What such assessments, applications, and critiques have often lacked is Thompson's uncanny capacity to look for the 'undersides', as he himself put it in a later essay, in any concept, to seek to grasp it in the full range of its possibilities—and limits. Thus *The Making*—and indeed all Thompson's writings—is actually steeped in economic history, and some of its richest chapters deal, precisely, with organised, radical or socialistic groups. But the economy is not allowed to remain at the level of abstractions governed by inexorable, purely 'objective' laws, as 'bases' precisely separable from 'superstructures'. That, he pointed out in a later essay, had only been an analogy, one among several and not the most helpful, used by Marx to convey much more complex and nuanced ideas. In Thompson, economic relationships and categories constantly get translated into everyday life, the market ceases to remain an abstraction and becomes poor people haggling over prices at shops and fairs, and sometimes struggling to enforce norms of

subsistence vital for their survival through collective action. Class, too, is what happens, sometimes, and in ever-shifting forms, in actual human relationships: it cannot be grasped as a finished or isolable entity. "We cannot have love without lovers, nor deference without squires and labourers."

WRITINGS ON 18TH CENTURY ENGLAND

In the late 1960s and the 70s came a whole series of crucially important essays, including 'Time, Work-Discipline and Industrial Capitalism' (*Past and Present*, 1967), 'Moral Economy of the English Crowd in the Eighteenth Century' (*Past and Present*, 1971), and 'Eighteenth-Century English Society: Class-Struggle without Class?' (*Social History*, 1978), to mention only three of the most outstanding, and Thompson's third book, *Whigs and Hunters* (1975). Thompson's corpus of writings on 18th-century England is perhaps less known outside the historical profession than his *Making*, but their impact has been almost as profoundly transformative. The 18th century down to the 1770s, before Thompson entered it, had seemed a placid, stable and rather dull interlude between centuries obviously marked by dramatic changes. It was assumed to have been an age dominated without question in England by aristocrats and gentlemen, engaged in dignified party-politics or (in the Namierite revision) factional squabbles, but in both versions with subordinates firmly tied to them through relationships of paternalism and deference. Violence was relegated to the domain of a distinct 'criminal' sub-culture, and occasional plebeian riots, usually over high prices, could be dismissed as mere outbursts of an unthinking 'mob', reacting spontaneously to economic pressures. It was, and in dominant part remains, what Thompson in one of his last essays has described as a historiography of the "bland leading the bland".

Working in collaboration with a group of young research scholars at Warwick University—a very rare opportunity for him—Thompson helped to constitute a new 18th century, both more brutal and far more open in its possibilities than the conventional models. Through meticulous analysis of the making of the Black Act to protect royal forests from hungry poachers in the interests of the Whig oligarchy, *Whigs and Hunters* exposed, as never before, the horrors of class domination and violence in an era previously assumed to have been peaceful, stable and gentlemanly. And yet, controls could never become absolute, for there were also powerful elements of a 'rebellious' popular culture. As always, Thompson was quick to specify, to particularise: this was far from being some kind of universal trait of pre-industrial popular cultures, but was bound up with concrete historical develop-

ments in England. The English Revolution, despite failure and compromise, had weakened the authority of the official church, and made the gentry suspicious of over-efficient bureaucracies and armies. Things, therefore, were rather different from the absolutist consolidation in some other parts of Europe, notably France. In England, crimes legally punishable by death multiplied in the 18th century in tandem with the tightening up of conceptions of property—but the number of actual executions did not rise in anything like the same proportion. The law was an instrument of terror, but it also was a theatre where hegemony had to be re-enacted. In its interstices developed a plebeian counter-theatre of insubordination and defiance. In his work on the 18th century, even more perhaps than in *The Making*, Thompson revealed his extraordinary powers of "turning over the bland concepts of the ruling authorities and looking at their undersides". Deference, he argued, could be at times "one part necessary self preservation, one part the calculated extraction of whatever could be extracted" ('Eighteenth-Century English Society: Class Struggle without Class'). Hence Marxists need to give conventional sociological concepts "a new dialectical ambivalence": an 'act of giving' must be seen, simultaneously, as an 'act of getting', a social consensus as a class hegemony, social control (very often) as class control ('Folklore, Anthropology and Social History', *Indian Historical Review*, 1977). Neat, and hence often homogenised, binary opposites found no place in Thompson's rich tapestry of historical reconstruction.

By the late 1970s, intellectual moods in the west were changing in directions opposed to Thompson's values and preferences even among radical circles. In retrospect, the violent attack on Althusser (*Poverty of Theory*, 1978), felt even by some admirers to have been excessively polemical and not entirely fair, makes more sense within this wider scenario. Althusser was just one indicator, and not perhaps the best choice of target. Althusserian Marxism had a notable impact on inter-disciplinary cultural studies, feminist theories, and anthropology, but it never became much of a force in mainstream history writing. The emphasis on structural determinants, however, when detached from Althusser's own Marxist faith, did contribute to an obsessive conviction in the totalising nature of power relations. 1978 saw also the publication of Edward Said's *Orientalism*, and Robert Muchembled's influential analysis of the 'conquest' of once autonomous French popular culture through successful acculturation by absolutist state and Counter-Reformation Church. These were works written quite outside the realms of Althusserian or any other kinds of Marxism: but, perhaps, an

overall context was being set by the final collapse of hopes of radical transformation, once aroused by Vietnam and May 1968. In studies of crime and law, too, where Foucault became the dominant influence, the focus was now on confinement and the near-irresistible disciplinary regimes of modern bureaucracies. The realm of popular freedom tended to be thrust back into a romanticised pre-modern or pre-colonial, and located in occasional moments of carnivalesque license.

THE CAMPAIGN YEARS

Thompson for 10 years found no time for methodological debates or the pursuit of the historian's craft. In a world on the brink of nuclear holocaust, he concentrated all his energies in efforts to build new and effective instruments for mass intervention, and not on abstract debates on structure and agency. When he returned to academic work in the late 1980s, it was with a body made frail and exhausted by years of endless campaigns.

The achievements of the few years that remained will be a source of both joy and sorrow. Like Raymond Williams, the British socialist intellectual with whom comparison has always seemed most appropriate, Thompson has died at the height of his creative powers. The book on William Blake is in the press, the one planned on Wordsworth, I presume, remains incomplete.

An unwary reader, skimming through the contents of *Customs in Common* (1991), may get the impression that it consists largely of reprints. Actually, nearly all the essays are either new or thoroughly rewritten. Old themes have absorbed and grown on experiences, both political and academic, of the intervening years. Thus 'Moral Economy Reviewed', written in the midst of worldwide hosannas to the wonders of the market economy, actually sharpens the critique of capitalism, while it avoids at the same time, more carefully than before, the romanticising of the pre-modern. The implicit moral economy of the food rioters, Thompson points out, was not anti-market in any absolute sense. Rather, "the crowd's preferred model was precisely the 'open market' in which the petty producers freely competed, rather than the closed market when large dealers conducted private bargains..." (*Customs in Common*, p.305). The distinction, in other words, is between the relative mutuality of small commodity exchange and capitalistic takeover; Thompson remains close to the insights of classic Marxism.

Other essays in the volume develop themes that had been opened up in the Warwick years—the lineaments of a part rebellious plebeian culture, the complex interfaces of customary and formal law as integrally bound up with the nitty-gritty of everyday produc-

tion. Meanwhile, some of Thompson's mid-70s students have developed into major historians in their own right. A book like Peter Linebaugh's *The London Hanged: Crime and Civil Society in the 18th Century* (1991) provides the best possible tribute to a scholar like Thompson: not as cult or even model, but through creative debate, elaboration and change.

From his father Thompson inherited a lifelong involvement with matters Indian. He visited us twice, in 1976-77 and, briefly again, as peace activist, in the mid-80s. The first visit, in particular, when he addressed a session of the Indian History Congress, provided a notable stimulus to social-historical teaching and research in India. It is not always remembered, for instance, that there was a 'Thompsonian' impulse behind the origins of the Subaltern Studies project, even if combined eclectically with structuralism and Maoist vestiges and even though its subsequent dominant trajectory moved in a contrary direction. Edward and Dorothy, fellow-historians and comrades, gathered together over the years a wide and varied circle of Indian friends, and for many this has been a personal bereavement.

It is fitting, in some ways, then, that the last of his books that Thompson was able to see in print was on an Indian theme. *Alien Homage* (1993), based on his father's correspondence with Rabindranath, is a quiet, almost excessively modest book: but then Thompson was always very different from a growing number of academics today who stride confidently across countries, continents and centuries, armed with simple talismans. At the same time, for Thompson, the necessary discipline of historical context did not imply total cultural relativism, which he recognised to be only an insidious form of Eurocentric patronage. Consider, for example, his comments on William Radice's critique of his father as "limited by being a contemporary of Tagore... also certainly limited by his missionary and British Imperial background..." "These stereotypes are limiting also", Thompson points out, "and are calculated to elicit predictable responses from a public as confined within the preconceptions of the 'contemporary' as was that of the 1920s... The limits must be noted... but what may merit our attention more may be what lies outside those limits or confounds our expectations. Limits may also be seen as contexts of human exchanges." (*Alien Homage*, pp 2-3.)

Quiet words of warning, but filled with resonance in an intellectual world somewhat dulled by uncritical applications of Edward Said.

The abiding quality of Thompson's historical work, the presence within it of exhilarating possibilities, even in years of failing health, underlines how much he gave to the cause of world peace when, for 10

long years, he imposed upon himself a virtual break from a domain where he was the master. This, as nothing else, brings home the compulsive force of his political commitment.

Historical research and politics interanimated each other and the resulting tension was profoundly productive. *The Making of the English Working Class* originated from trade union study classes, and Thompson's historical insights flowed into what could otherwise have remained the most ephemeral of political pamphleteering. I would like to end with a passage which is now rarely remembered, and which was written in honour of a British miners' strike: not the heroic failure of 1984, but the one in 1972 which helped to throw out a Tory government and is therefore relegated to obscurity by media silence.

Commercialisation of Higher Education in Andhra Pradesh

M Shatrugna

The primary objective of the new policy on professional education is to allow college managements to hike their tuition fees, irrespective of the category of candidates.

FOLLOWING the judgment of the Supreme Court in the case Unnikrishnan vs State of Andhra Pradesh (1992) the Vijayabhaskar Reddy government has revised upwards the fee structure of professional courses including engineering and medicine. The revised dual fee structure in the aided and unaided professional colleges in the 'free' and 'payment' categories covertly follows the guidelines set by the World Bank for the social service sector including education. Last year the Janardhan Reddy government had made abortive attempts to grant permission to set up 13 medical and seven dental colleges in the private sector as the student and academic community had succeeded in opposing the move both inside and outside the law courts. In the process, Janardhan Reddy lost his job.

Andhra Pradesh has a total of 28 engineering colleges, 17 in the private sector and the rest in the government/university sector. Professional education in the private sector was ardently promoted by the Congress(I) under the regime of M Chenna Reddy in the late 1970s. In a short span of five years, 13 engineering colleges started collecting enormous capitation fees and donations. When the TDP captured power in 1983, its first action was the abolition of capitation fees in these colleges and the appointment of a committee under K Koteswar Rao, principal, Regional Engineering College,

The pits of Ballingry and of much of West Fife have now closed down. And we had supposed, poor fools that we are, that all that heroic and intelligent history, all that 200 years of inconceivable stubbornness and courage, was quite dead. But out of that history has come this moment of illumination; we stir uneasily as, once again, there are men in our streets shouting 'One and All'. It is a moment of cultural transmission, as the pent up energies of the dead flow back into the living. We shall burn that history for many years, as we have burnt the black forests which for generations they have raised. For the future historian it will seem that this week of darkness in February 1972 was an incandescence. (*Writing by Candle-light*, 1980, p 76.)

Perhaps a bit of the incandescence that was Thompson's whole life may help to light our paths, too, in these dark times.

Warangal to study the infrastructural/institutional structure in these colleges with special reference to the tuition fees. While withdrawing the government grant-in-aid, the TDP government had permitted dual fees structure in the engineering colleges. While the annual tuition fees in the university/government-run colleges was around Rs 1,000, private colleges were allowed to charge Rs 3,500 in 1983 when the act abolishing capitation fees came into force. But admission was based strictly on basis of merit and rank obtained at the state organised entrance test. As the management quota and capitation fees were abolished, private colleges were allowed to collect Rs 1,000 per year extra. Thus the tuition fees stood at Rs 10,500 by 1992-93, and though that was not the best system, it worked fairly well for seven years during TDP rule.

The Congress(I) government under the leadership of N Janardhan Reddy, instead of improving the system had sought to change the whole structure by not only enhancing the fee structure but also throw open professional education to the private sector. To give legitimacy to such an undemocratic move, he had appointed a one-man commission with Gopal Reddy, vice chancellor of Jawaharlal Nehru Technological University (JNTU) on engineering education and a three-man commission headed by the director of medical education on medical educa-

tion to lay down guidelines for starting new colleges and suggest measures for enhancing the tuition fees to make the colleges 'financially viable'.

The three-man committee report on medical education was a big farce, with the committee suggesting permission be given to start 13 medical and seven dental colleges in the private sector with a major share of the colleges being managed by chief minister's friends, relatives and liquor contractors. The entire report was struck down by the state high court and the scheme was a non-starter. Gauging the public mood on this nefarious move, Janardhan Reddy subsequently withheld the report on the engineering colleges. Meanwhile he himself had to quit the ministry.

The details of report were finally announced by Vijayabhaskara Reddy in the Budget session of the assembly this year. Though the report was not made available either to the legislators nor the public, 'quoting' the report, the government had divided the number of seats in the unaided private engineering colleges into 'free' and 'payment' seats on a 50:50 per cent basis. Whereas the 'free seats' quota will have the annual fees of Rs 3,750 for a seat, the payment quota seats will have an annual fees of Rs 26,250. The government while fixing the new fees has not given any legitimate reasons for such an abrupt increase.

Andhra Pradesh has about 6,600 engineering seats in the first year. In the new formula only 3,300 are treated as 'free' seats and the rest 'payment' seats. Since both the category of seats are filled on the basis of merit and ranking obtained at the entrance test, in the new formula, the better merit quota of seats is automatically reduced by 50 per cent. With this the affluent and 'unmerited' candidates can be admitted into the 'payment' quota at the expense of relatively better merited but poor students. Thus by collecting a neat sum of Rs 30,000 for two candidates (Rs 3,750 for a free seat and Rs 26,250 for a payment seat) the managements of private engineering colleges will collect an extra Rs 9,000 for two students.

As far as the government/university engineering colleges are concerned, fees that was around Rs 1,500 per annum has been raised to Rs 3,750. Though there is a case for enhancement of the tuition fees all over including professional colleges, the 'payment' category fees structure does not appear to be based either on sound reasoning or on facts.

It is useful to quote briefly the findings of the Koteswar Rao Committee Report. For instance, on the maintenance of accounts, the report said "The accounting procedures adopted by most of the private engineering colleges is very unsatisfactory..." Further "...the 13 private engineering colleges had collected a sum of Rs 16.50 crore since the

inception of the colleges in the form of donations/capitation fees and the total investment on physical facilities was only Rs 13.22 crore up to 1983". Of the many gross violations committed by these colleges, some were:

MVSR Engineering College, Hyderabad is located in a rented premises on a temporary basis in Saidabad and the laboratory facilities are very poor. No efforts are made by the management to create the infrastructure/institutional facilities and staff position is also very bad. A large amount of money collected by way of donations/capitation fee is locked up as idle investment in the bank while the students are feeling frustrated for lack of laboratory facilities. Fifty acres of land is supposed to be acquired by the society for locating the college permanently, but it is not yet registered, although the full amount is stated to have been paid. No site plan or layout has been prepared or shown to the committee except for a rough sketch. The state of affairs of this college is very unsatisfactory and the committee feels that this Institute does not deserve any offer of grant-in-aid from the government. Sufficient funds are available with the management to make necessary arrangements for instruction for the students, already on rolls to enable them to complete the requirements for the BE degree.

Vasavi College of Engineering, Hyderabad is running lectures and drawing classes in Himayathnagar for second year and the first year classes are being run in the existing old structures located on a site of 3.18 acres (acquired by the society) in Ibrahimbagh. 9.32 acres more in the same Ibrahimbagh site are stated to have been taken possession of, but this land is not yet registered in the name of the society/college. Some of the classes for second year are being run in an existing poultry shed located in Ibrahimbagh site. Construction work on a two-storeyed building has recently been taken up on this site and the RCC columns have come up to the roof level in the ground floor. The second year students are being sent to NS College of Engineering for practicals. Most of the teaching staff are appointed on *ad hoc* basis and the overall position is highly unsatisfactory. This Institution does not deserve any grant-in-aid from the government in the opinion of the Committee. Sufficient funds are available with the management to make necessary arrangements for instruction for the students already on rolls to enable them to complete the requirements for the BE degree (pp 5-6).

Though both the colleges have moved into their own buildings since then, the physical conditions/facilities have not improved commensurate with the fee charges. The annual tuition fees rose from Rs 3,500 (1983-84) to Rs 10,500 (1992-93) per student.

The report further computed that with an annual tuition fees of Rs 4,900 in 1983-84 there was a surplus generation of funds up to 1978-88. But instead, tuition fees was in-

creased by almost Rs 1,000 every year from 1983-84 onwards. Thus according to Rao Committee Report, after meeting all the expenses, the colleges would have surplus funds even with a tuition fee of Rs 4,000 per annum without any grant-in-aid from the government. The Rao Committee while listing the social and economic implications of high fees had suggested that the annual fees should be pegged down to Rs 1,500 and the rest to be met by the government as grant-in-aid to private engineering colleges. With such a background, it is not clear on what basis the Gopal Reddy Committee had suggested Rs 26,250 annual fees for the payment category. The non-availability of the full report makes one suspect that it was wilfully suppressed from public scrutiny. As if the high fees is not sufficient, the rapacious managements not satisfied even with this largesse have demanded (1) Rs 36,000 for a payment seat, (2) reservation of some seats to be filled in by themselves and, (3) 10 per cent allotment of 'payment' seats to NRIs.

It is interesting to recall that these colleges have all along maintained that adequate facilities have been provided to the students and the staff. Then what are the grounds for further enhancement of tuition fees? It is clear that the managements in league with the party in power want to make quick money knowing the demand for professional education. Also, the 10 per cent NRI quota is most reprehensible as the candidates in this category are exempted from appearing for the entrance test. The fees collected in this category, 6000 US dollars per annum, is to be spent on the 'development' of the institution. Also, the managements are vested with powers to select the candidates.

The only redeeming feature of the new policy is the 30 per cent statutory reservation of the seats in favour of the girl candidates. This reservation is applicable to both 'free' and 'payment' seats. Though this is a welcome measure, in reality, it is not easy to find the SC and ST girl candidates in the reserved quota. In the backdrop of the Mandal Commission recommendations on reservations to the BCs, the government in a clever move has made provision for various category of reservations in both 'free' and 'payment' quota, thus obviating the charge that the reservations are limited only to 'free' seats. It is clear that the primary objective of the new policy is the upward revision of the fees whatever the category of students. The managements could not care less who is admitted as long the candidate pays the enhanced fees. While it has been the policy of the government to reimburse the tuition fees of the weaker sections (BC, SC and STs), in the new policy a candidate in the reserved quota pays the same amount as a candidate in the so-called open quota.

Land Struggle in Uttar Pradesh

Amaresh Misra

In keeping with the changing pattern of landownership—with the landlords today having access to political and bureaucratic institutions at the state level, as well as locally—land struggles have also acquired a new pattern.

IN a state dominated at the moment by the hangover of a sectarian climate and the issues-counter issues related to the burgeoning Ayodhya controversy, one would hardly expect other more basic and grass roots matters to acquire prominence. It is even more unlikely given the background of a weak Leftist impulse and the absence of any consistent stream of a trade union or agrarian movement in recent years. In fact, the last time when radical peasant unrest made headlines in UP was way back in the 70s during the height of Naxalite movement; prior to that a CPI-led impulse was quite prominent in the eastern areas of the state during the 40s and 50s which, however, got dissipated soon after the party withdrew from grass roots initiatives. Later, a short period of socialist ascendancy did witness renewed activity on the peasant front and Mahendra Singh Tikait emerged in the 80s to register a forceful presence in state politics. But the Jat leader from west UP also came to typify more the limitations of the peasant question in UP which became centred more and more around economic issues of the middle and rich farmers little related to problems of a more fundamental nature.

Some recent developments appear to be altering the established picture of the state in many ways. In districts particularly of east UP a current of peasant struggle is fast coming to the fore revolving around the issue of minimum wages and land reforms. Regular reports from the reaches of Benaras, Ghazipur are pointing to an increased level of conflict between the landlords and poor peasants of the area especially as regards possession of wasteland, land under the jurisdiction of gram sabha, etc. Most of these struggles are led by the UP Kisan Sabha, a relatively new peasant organisation formed by the IPI-CPI-ML combine.

Recently a case of land struggle against a powerful yadav landlord of Mughalsarai, Benaras led to an armed attack on CPI-ML activists resulting in serious injuries to scores of them. Ganji Yadav, the landlord in this case is also the Benaras president of the Samajwadi Party while the victims belong to the extremely backward hind community. The binds were demanding factual ownership of about 20 'bighas' of land which already bore their legal title since 1986 but which was being forcibly held by the SP president. The latter controls ille-

gally more than 50 bighas of land in other parts of the district as well and typifies the neo-rich forces that have emerged in the area.

These are far removed from the old-style feudal landlords and draw their power not merely from local control but from influence over political and bureaucratic institutions at the state level. In keeping with this trend the struggles against them are also taking place on lines different from say those in the early phases of agrarian struggle in Bihar. Then an intense wave of grass roots struggle, often accompanied by armed initiatives, preceded larger political manifestations at the state and other levels. By contrast the UP pattern is exhibiting organisation and intervention from 'above' even in the initial stages. In fact, the Benaras incident took its present overtones after a period of struggle conducted within a political, parliamentary framework. The CPI-ML was essentially following a prolonged spell of dharna, mass mobilisation, political propaganda, etc, when the attack occurred. This was part of a larger state-level programme of opinion-building and movement through which the party intends to push this issue onto the mainstream political agenda of UP.

The Benaras incident occurred after a chain of more or less similar events involving mainly the Thakur-bhumihar landlords of both Benaras and Ghazipur. In the former, the movement has spread to nearly all the major blocks in the rural area while in the latter too, a similar process is underway. Everywhere, an initial spell of peaceful agitation is giving way to intense skirmishes which have already led to the formation of a Savarna Liberation Army (SLA) by the pro-landlord, uppercaste forces of the area. This force is piling up arms and is wooing the support of parties like the BJP—recently the BJP state president even toured some affected areas of the Benaras-Ghazipur belt as part of a strategy to counter the growing influence of the Indian People's Front (IPI)-CPI (ML). An added dimension has appeared in the form of several dalit rebel-dacoit gangs operating in the Benaras-Bhabua (Bihar) belt. These gangs enjoy the patronage of parties like the BSP in the area and usually work against the interests of the peasant movement. The CPI-ML is countering the militant challenge on both sides by organising 'self defence squads' in place of

the usual 'armed units,' as part of a new concept of building more 'mass resistance' oriented people's militia in the long run.

The resurgence of the peasant movement has revived memories of past events such as the Sherpur incident of Ghazipur in which several families of dalits were burned alive by marauding landlords during the heyday of the Naxalite upsurge. The incident was widely reported in the national press and even now the dalits of the area do not work on the farms of the bhumihars. At that time areas of the nearby town of Ballia were also affected where landless labourers still receive only Rs 2 and about half a kg of 'sattu' for a full day's work. But this time around the CPI-ML's strategy of projecting the land issue as a political question is producing different results and the party is winning support from the wide sections of the middle peasantry as well. All this is affecting the political balance in the area as both the BSP and Mulayam's SP are facing a sudden and renewed challenge from an unexpected quarter. The radical communist line of the CPI-ML is also attracting peasant cadres of the two other communist parties on a large scale and is all set to expand in the traditional communist belt of the CPI-led struggles criss-crossing the districts of Ballia, Mau (Azamgarh) and Ghazipur.

The impact of the east UP current is also being felt in the southern districts of Mirzapur and Sonbhadra especially amongst the sizeable tribal population of the region. This area is heavily forested and the CPI-ML is campaigning for the rights of tribals to forest land and produce. A similar attempt in the dense tracts of Terai in the plains of central and north UP is already yielding significant dividends. The struggle here is targeting the forest department as well as the nexus of contractors, local administration, police personnel, etc, who conduct illegal business on large portions of land assigned to 'revenue villages' peopled by migrants from different parts of the state and beyond.

The area too enjoys a turbulent history and was witness to instances of armed struggle in the late 60s and the early 70s. It has already seen many scuffles in the Pilibhit-Lakhimpur Kheri belt between the police, local forest mafia and the UP Kisan Sabha in which the BJP openly came out against the peasant current on many occasions. While the police has resorted to terror, intimidation (including forcible eviction from established sites), the Kisan Sabha is organising a programme of dharna, gherao and resistance on the field which is already attracting state-wide attention in the media and other circles. To consolidate these gains, the CPI-ML has called for a statewide 'land grab' movement and with such prospects on the anvil, the stream of radical land struggles seems to have finally arrived in UP.

FOCUS AND VISION IN BUSINESS

Speech of Mr. T. Thomas, Chairman, Glaxo India Limited,
at the 69th Annual General Meeting on 3-9-93

I. INTRODUCTION

One of the major challenges that face any business as it grows, is with regard to its vision and its focus. With the opening up of the Indian economy and the removal of several restrictions on internal as well as external trade, most large companies in India, including our own, will have to address this issue. Therefore I have chosen the topic "Focus and Vision in Business" as the theme for the AGM speech this year.

II. WHY DID FIRMS IN INDIA DIVERSIFY WITHOUT A FOCUS?

1. Pursuit of Geographic Dominance

All businesses start initially as local ventures which then gradually extend to the surrounding districts, to a whole State, some later on to a whole Country and a few even internationally. At each of these stages the business has to overcome internal and external barriers. For instance if a business originated in one of the States in India, its management would be normally dominated by people from that State. As it extends its operations beyond that State it has to make a major attitudinal change in its evolution as a national company by having managers from different parts of the Country and extending its organisational reach. Some companies choose to remain regional and preserve their cultural and linguistic cohesion with a more restricted, but tightly controlled organisation. That is why we have firms which limit their operations to the South or North or West or East of our Country. Similar regional companies exist in most economies of the world. Only a few manage to reach beyond the confines of their country of origin.

While a company is restricted in its early stage to a particular geographic region, either by choice or due to various limitations, it has to seek its growth through diversification of product range as it cannot extend its markets geographically. This is one of the major reasons why many companies tend to diversify into several product lines at the earlier stage of their evolution. Alternatively or in addition to extension into unrelated product lines, some companies adopt vertical integration of activities e.g. manufacturing company diversifying into packaging or transport or financial service. Some of these activities could themselves become independent business units as they can provide such inputs to other companies as well. The firm thereby increases its size, profits and its regional dominance as a business house. Such dominance has many advantages including the ability to attract capital and good management which are the key resources required for further growth.

A major early influence in the evolution of business houses in India was the model set by British Managing Agency System, which existed under the British Colonial rule. It was meant for British investors who were not present in India to place their equity with a management group that lived in India and specialised in managing business in India. Being confined to India and specialising in this region, the British Indian Managing Agency houses had to diversify into a portfolio of businesses in order to grow. They typically included tea, jute, engineering, shipping, railways, cotton textiles, etc., within the same group. Most large Indian owned business houses in the early part of the century were modelled in this colonial system or were successors of British Managing Agency houses.

2. Industrial Licensing

When India became independent there was a significant burst of national business firms. For the first time there was a national Government which actually encouraged Indian industry through the Industrial Development & Regulation Act. But within a few years the Government's administration of the Act began to shift its role from Development to Regulation. It became a vehicle for Licence Raj which in turn forced most Indian companies to diversify. The total capacity to be licensed by Government in any given industry was prescribed by Government on the basis of the Government's own estimate of demand for such products. Such restriction of installed capacity in industry created several distortions:

- (i) there was intense competition for procuring licensed capacity as it became a restricted, 'scarce' commodity;
- (ii) those who had the financial resources and political patronage could pre-empt licences in several industries and preclude others;
- (iii) those who procured licences had a very large incentive in restricting the total licensed capacity in a given industry and preventing others from entering that industry for as long a period as possible.

Thus almost contrary to its own original intentions the Government created an artificial market in industrial licences which enabled those who had patronage and financial resources to diversify into as many industries as they considered attractive. Opportunistic diversification of Indian industry thus received a Government inspired boost.

By the latter part of the 1960's when Industrial Licensing had been in operation for over 15 years, the result of these distortions became very apparent as a number of large industrial houses had been able to exploit the Licensing System and build dominant positions in several key industries.

3. MRTP & FERA

The rational solution at that time (say 1966) should have been to abolish Licensing System and open up the economy for investment. Most S.E. Asian economies did so at that time (and our Government has done it now — 25 years later!) But in late 1960's India was unfortunately in the grip of Public Sector-led Socialism with the Soviet Union as our model. Therefore India lurched forward several steps in the opposite direction of further restrictions and distortions in investment. Government enacted a draconian MRTP and enforced a highly restrictive FERA. Under MRTP, larger Indian Companies were prevented from expansion of the size of their individual businesses (which were only very modest if not small by international standards). The limits for each of them to be classified as a monopoly were set at very low levels in terms of size. Therefore they had to diversify into unrelated areas, which they specially chose in order to conform to and to circumvent MRTP. The Government could not have found a better means of making Indian industry internationally uncompetitive—first by limiting the size of companies and secondly by preventing them from specialising and gaining dominance first nationally and then in international markets, in businesses where they had built up their expertise. The S.Koreans and others in S.E.Asia were doing the opposite in the same period i.e. encouraging national firms to become giants in their own markets and to specialise in select areas preferably with export potential. The consequences of the two divergent policies followed by India and S. Korea are very evident today. After 20 years, S.Korea is 20 times ahead of us in per capita income although we were on par with them in the 1960's.

The other piece of legislation which severely inhibited growth of specialised companies in India was FERA. Most large multinationals specialise in certain areas of business e.g. pharmaceutical or consumer products or chemicals or engineering. They also prefer to have majority ownership and control of their business. There is nothing unusual or reprehensible in that. If an Indian Company is to set up business in Thailand or Indonesia or Kenya, it would also prefer to have control of the Company. That is what all foreign investors (Indian or otherwise) would want. And the Government of India would heartily welcome it if it is an Indian Company investing abroad! Yet from 1973, India chose to restrict ownership to 40% in most of the existing foreign companies and positively discouraged any further fresh foreign investment into the Country. Since then foreign investment into India dried up.

One day when the economic history of India is written, the period 1970-1990 will be seen as a period of economic darkness for our Country. In terms of economic development it was almost similar to the madness of the Chinese Cultural Revolution of 1966-1976. Interestingly the Chinese began their economic reform from 1979, 12 years before we started our liberalisation in 1991. They permitted joint ventures from early 1980's, with foreigners being able to own 50% of such venture while we were at the height of our anti foreign investment policy. The difference in attitude to foreign private investment is one of the major divergences in the economic policies of China and India. Today China has over \$100 bn. worth of foreign investment actually on the ground which is several times more than what India has. But more significantly because of the encouragement given by Chinese Government and permission to own upto 100% equity, the flow of investment has steadily increased over the recent years. The result of the contrary-wise Indian policy before 1991 was not only to repel such foreign or NRI investment, but also to drive down many existing foreign companies into diminishing profitability as

the inexorable increase in overhead costs could not be borne by the narrow base of the existing business as limited by MRTP/ FERA. To avoid this fate and to survive, and much against their own preference, several foreign companies were tempted to diversify into unfamiliar territories, with varying degrees of success. Our own company was one among these.

4. Glaxo Experience

Glaxo India was 100% owned by Glaxo Group till 1968. Their shareholding was brought down voluntarily to 75% in that year to provide for participation by Indian investors. Under FERA rules enacted in 1973, as a drug manufacturer in high technology area, the Company could have technically remained a majority foreign owned Company with upto 74% foreign shareholding as some other drug companies have done. But the restrictions of FERA and the Drug Policy on future growth of the Company were seen to be so stifflingly restrictive by the then management of the company, that they took a decision to bring down foreign equity to 40% in 1983.

Another possible reason to move in this direction was the increasing severity of price control (D.P.C.O. 1979) on drugs which apparently made it attractive to develop non pharmaceutical business within the company in order to reduce its dependence on pharmaceuticals. By reducing foreign shareholding, it was felt at that time that the company would have greater freedom to diversify into several areas of business and grow in size and hopefully in profitability.

In pursuit of this strategy, Glaxo India invested in 4 different projects during the 1980's. These were Dempo Dairy (in Karnataka); Hindustan Foods (in Goa); Vegepro (U.P. based soyabean project); and KGCJB (Karnataka based Starch derivatives project). However as we have already reported to the shareholders, the company's experience with all these projects has been very disappointing. We have decided to withdraw from all of them.

In line with the experience of several international companies and particularly that of the parent company Glaxo Holdings, U.K., Glaxo India has now decided to focus on its core business which is pharmaceuticals. The parent company in the U.K. adopted this policy several years ago, with great success. It was a medium sized, predominantly U.K. and Commonwealth based multiproduct company with a turnover of under \$200 m. in mid 1960's with almost no market share in U.S.A. or Japan, the two countries which together account for 50% of the world's pharmaceutical market. Today Glaxo Holdings, U.K. is the second largest pharmaceuticals company in the world with a turnover of over \$7 bn. with a much wider international base (40% of sale in U.S.A.). And most importantly, it has one of the best profitability records in the industry. This was achieved by :

- (i) defining the Corporate purpose of Glaxo Group as one to discover, develop, manufacture and market prescription medicines;
- (ii) investing heavily in basic research in pharmaceuticals; and
- (iii) aggressively extending the business especially into the developed markets of U.S.A., Japan and Europe.

It is that combination of vision and focus which made Glaxo Holdings such a spectacular success story.

III. THE CASE FOR FOCUSING THE BUSINESS OF A FIRM

1. Specialised Knowledge and Management Skills

As a business grows it will produce and market a set of products

and/or services and its markets will extend beyond the region and the Country. The firm will build up its own specialised knowledge about the consumer, the markets, the competition, the products, the science & technology involved, the suppliers, the distribution system, the terms of trade, the financial needs, the import/export restrictions and a whole host of specialised items relating to that specific industry. It will also build up an image for itself and its products among customers, employees and the public. It will invest in brands and over the years the brands will become valuable assets which could be extended internationally as Western, Japanese and in recent times East Asian Countries have shown. During the last 20 years, an increasing number of products and services have become global as

- (a) customer needs and expectations are becoming global on account of vastly improved communication and transportation and the near universal access to satellite television; and
- (b) barriers between markets are being lowered steadily all over the world.

Thus the scope for regional and national businesses to extend beyond their boundaries has widened immensely in the last 20 years. Conversely most businesses which have chosen to remain national, will have to face the entry of more global firms into what has till now been their national market sanctuary. This is what Indian companies have to face now as a result of liberalisation.

To cope with this new phenomenon of competitive development of the market, a firm needs high quality management that has an adequate depth of specialised knowledge and skills in that specific industry. The old concept of a generalist manager who is the jack of all trades/businesses is inadequate in this new context. A consumer products manager will not be as effective in an engineering company nor a bank manager in a pharmaceutical company. A firm has to train and develop managers who specialise in each industry. For this, it is necessary for the firm to focus on one or a few core areas of business.

2. Adequate Concentration of Investment

When firms become global, the scale of investments required escalate to a much larger scale in fixed assets, in the market place and in R&D. To make an entry into a new region the firm may have to bear losses for the first 3 to 5 years. This is in addition to the capital in manufacturing and distribution factories. In the old days it was possible first to build up a market through imports from an established base and then invest locally. Today the scale and intensity of competition is such that firms cannot afford to wait lest they miss the bus to a more aggressive competitor. That is why Pepsi Cola and Coco Cola are set to invest probably \$100m. each before they see any return from India. Even to introduce a new brand of consumer product by an established company in a large market like the U.S.A. it costs a few hundred million dollars in terms of advertising and promotions, apart from the investment in manufacturing facilities.

The other major area of concentrated investment required today is in R&D. This is true of all industries including consumer products like foods, detergents, beverages, etc. They spend 3 to 5% of their massive sales on R&D. But it is all the more so in the pharmaceutical industry where the R&D expenditure can be up to 15% of sales. A single drug can take in excess of \$200 m. and up to 12 years to research, develop, clinically test, and take through the approval and registration process before it can be launched that too with risks!

In short the scale of investment in individual global product groups has reached such proportions that firms have to concentrate their investment in a select number of areas. One of the latest examples of a firm that is doing so, is that of ICI of U.K. which has just undergone a major restructuring, in order to invest competitively in R&D and marketing. It has split itself into two companies, one in pharmaceuticals and the other in bulk chemicals so that there is better focusing of resources.

3. Market Dominance

By concentrating resources in one business or in a few select areas of business, a company can gain dominance nationally and globally in those areas. All the world's leading companies have done this whether it is in petroleum and chemicals, automobiles, engineering, pharmaceuticals, aircraft manufacture, computer technology, foods, cosmetics or financial services. Many of them have come to this stage through a process of evolution. Their expansion either through organic growth or through acquisition are in a core business and in related fields which strengthen the core business by bringing additional technological or marketing synergies to that business.

The advantages to a company of gaining dominance in a specific business are considerable. On account of the increased investments in R&D, sophisticated communication and information technology, the composition of costs in modern industry has shifted significantly away from manufacturing costs to the less variable costs involved in the above items. Such costs unlike manufacturing costs, do not increase in proportion to volume. Therefore in a properly managed company the profit margins will be higher for a company which has higher volumes and market share. It also enables the company to negotiate better terms from suppliers of materials and services which further improves margins against less dominant competitors. With dominant brands the terms of trade with the distributors can be much more favourable than those available to smaller competitors. These higher profit margins through dominant market shares are therefore not achieved by exploiting the customers which was the popular mythology of the erstwhile. Socialists who at the same time believed in monopolies, if they were owned by the State! In India Government policies were based on this mythology till now, and actively discouraged market dominance by the Companies in the private sector. With the new liberalisation of policies, it is now possible for companies in India to acquire competitors and create a more dominant and therefore more profitable position in select areas. That is what Hindustan Lever expects to achieve with the acquisition of Tomco.

To provide the financial resources for such acquisitions, companies will find it even worthwhile to divest some of their profitable, but non-core businesses, which may fit much better into the portfolio of another company which has specialised in that area of business.

Dominance demands continued vigilance and investment behind the core business, both in terms of capital and management. Because the profit margins of a dominant firm are seen to be higher, there will be others that will constantly challenge the leader. This is the phenomenon that we see between Coke and Pepsi or Unilever and P&G throughout the global markets. This sort of competitive challenge among dominant firms is one of the best stimulants to better performance of firms and ultimately it benefits the consumer.

4. Stronger Intra-business Links

In a widely diversified Indian firm which for example is in textiles, cement, packaging and electronics, the only major link is

finance. Therefore the business will be mainly driven by financial considerations. This linkage was adequate in a relatively closed market like India before 1991. Finance is a key element in any business, but the actual development and performance of any business in a competitive economy is more dependent on other key functions as well viz. Marketing and R&D. In a business like Pharmaceuticals (and many others) the strongest link required is between Marketing and R&D. As Sir Paul Girolami, the Chairman of Glaxo once remarked, "Marketing begins in the R&D laboratory". One can raise finance competitively from the market. But a firm cannot buy new products or acquire market share except at a tremendous cost—that too with very high risks.

If the business of a firm is diversified, the tendency will be to dilute and dissipate the Marketing-R&D link because the company will have a multifocussed R&D group which will find it difficult and confusing to relate to the diverse markets. The R&D group will lack cohesion within itself and so will the marketing group. Such a divergent group will find itself at a disadvantage in competition against global firms which focus on select areas of business.

5. Greater Commitment of Managers

In a highly diversified business, the different parts will not be equally large or equally profitable and their respective fortunes may fluctuate over time. Managers tend to be moved from one business to another at different stages in their career. Most of them therefore are not committed to any particular business within the group. Furthermore over a period of time the better people or the 'A' team of the firm tend to confluence in the more successful and growth oriented businesses in the group, thereby leaving the other businesses with the 'B' team. But ironically the firm will need to attract the best among the managers ('A' team) to develop and improve the lesser business groups within the firm. Yet this becomes increasingly difficult. As a result the more difficult, less glamorous parts of the business, decline further and faster. It might have indeed been better if the company divested such businesses before they became steadily the "lesser" parts of the group.

In a more focused firm, the management will be more uniformly committed to each part of a more cohesive business, thereby ensuring its success and growth.

6. Minimising Errors of Judgement

In a diversified business, the top management will find it increasingly difficult to understand each of the individual businesses. They tend to come from a few of the more successful parts of the business. So they tend to second guess the people who manage the individual businesses especially in key areas like the market, competition, product development, etc. Second guessing is not only tedious for them, but also frustrating for people who manage the business. Some of the more sensible top management may tend to concentrate on items like finance, personnel, external relations, etc., on which anyone can form a judgement. They will gradually abdicate some of their investment responsibilities.

It is in such circumstances that companies can make errors of commission and omission with regard to judgement of competition and the market place. They may back the wrong products or underestimate competition or miss opportunities or make wrong investment decision. All this happens as in a diversified business group the decision makers at the top are further removed from the operations both organisationally and in terms of knowledge.

This statement may appear to be contrary to the experience of some of the large Indian business houses who have been extremely successful in diversified portfolio of businesses. The apparent contradiction can be explained as follows :

- (a) These Indian groups have grown and diversified in a highly protected and restricted Indian economy where growth was driven by opportunistic (read exploitation of Licence Permit Raj) and financial considerations. But now with the opening up of the economy the opportunism and distortions caused by licenses and Government regulations, the exploitation of these by such entrepreneurs, will cease to be a growth factor.
- (b) When tariff walls are lowered and international competition arrives — both of which are inevitable consequences of economic liberalisation, these groups will find it necessary to focus their management and financial resources in fewer select areas in order to compete on international scales of cost and quality. Some of them may find it advantageous to divest some of their profitable but unrelated businesses as has happened in many cases in the more developed countries.

7. Avoiding Central Bureaucracy

As a firm grows and diversifies, there will be an inevitable tendency to create a central bureaucracy which acts as the link between the top management, its central supporting groups (operational and functional) and the corresponding people in each individual business group and location. This central bureaucracy like in all Governments tends to acquire gradually more power of filtering and blocking things than would have been originally intended. Top management will be seduced to become more dependent on this central bureaucracy than on the operating management of the constituent business. Physical proximity to the central top management gives this bureaucracy very much easier access to them. It assumes a life and rationale of its own and will tend to multiply. The growth of such bureaucracy is a totally unproductive cost which the group has to bear. But the more damaging feature is that it acts as a barrier that often distorts the process of decision making. Most big companies do recognise the cost and inefficiency of having such a bureaucracy at the centre and initiate rationalisation campaigns from time to time. This in turn adds to confusion and periodic demoralisation of H.O. staff some of whom have to play crucial roles. By focussing on select business segments, the linkage between top management and the operation will be more direct and the organisation will be leaner, more agile and far more efficiently responsive to changes without the hindrance of a central bureaucracy. H.J. Heinz the \$7 bn. highly successful international food company has only about 70 people in its international headquarters, because it has a highly focused business.

8. Realising the Full Potential of Each Business

Because of the disadvantages of clubbing together several businesses within a large diversified group, the real potential of some of the businesses within the group are not fully realised. ITT of the 1960's was a classic conglomerate with telecommunication as its original core business but diversified into hotels, insurance firms, car hire companies and a host of other businesses. By being part of the conglomerate, each of these businesses could not focus effectively on its own market and competition, nor could the top management keep track of them except through a highly centralised arbitrary set of controls exercised by an authoritarian Chairman. When the group's performance declined as a result, ITT had to divest most of these diverse companies.

In a more natural evolutionary extension of a firm, Unilever as a consumer products business in Europe had at one time diversified into packaging and transport both of which were used by the core consumer products part of business on a large scale. But as packaging and transport became more commonplace, it was found that such products and services could be more competitively provided by specialists in those fields. The consumer products business could concentrate better on its own core business, and it could actually benefit from the competition among suppliers of the services as compared to the inhouse services. The business was therefore restructured voluntarily, through disinvestment of the peripheral activities.

In contrast, during the 80's many U.S. companies were forced into restructuring and focusing their businesses by aggressive (but not always) honest merchant bankers who demonstrated that the sum total of the real values of the different parts of a diversified business was often in excess of what the whole conglomerate was valued at. This difference is called "the conglomerate discount". It reflects the diminution in value of a business because it belongs within a conglomerate and consequently suffers a number of the disadvantages as outlined in the above paras. This discount is sought to be corrected by a process of "unbundling" of the conglomerate business. Unfortunately in several cases such unbundling was forced on unwary conglomerates by financial predators. It would have been far better if the managements had realised the need for unbundling and carried it out themselves. It causes less disruption and panic and yields the best results all round. The attack on RJR Nabisco by the aggressive merchant bankers KKR, was a celebrated case of how a successful group underwent the trauma of being unbundled and auctioned. More recently Sir James Goldsmith tried to do it (unsuccessfully) with BAT industries and Lord Hanson threatened to do the same with ICI in the U.K. Both companies had to undergo the trauma of first defending themselves against the predators and then restructuring their portfolio voluntarily. It does affect morale and investor confidence.

Wiser companies now undertake this task of "unbundling" without the threat or intervention of a predator. The latest example of a company whose management has voluntarily and steadily focused away from being a conglomerate to a more focused one is Pearsons Group in the U.K. It used to straddle a variety of businesses Chateau La Tour Vineyard in France; Royal Doulton, China; Camco Oilwell Services; Westminster Press (Provincial Papers); Penguin books; Addison Wesley; Financial Times; Les Echos in Paris; the Economist (50%); Lazard Brothers; Madam Tussaud; British Sky Broadcasting and Thames Television. The Group have now decided to focus on the media and entertainment businesses. Chateau La Tour and Royal Doulton which would have been considered as prestigious crown jewels have been divested. Camco is being divested.

Diversified conglomerates in India may well benefit from an analysis of the real value of the individual businesses within the firm if each of these was run as an independent business. This can indicate the conglomerate discount that they are suffering from and provoke corrective action. Otherwise it is conceivable that the Anglo-Saxon model of predators can appear in India over the next decade and force the pace.

It may be argued that several Japanese houses like Mitsubishi, Toshiba, Mitsui, Hitachi, etc., are widely diversified conglomerates and yet highly successful. This apparent "contradiction" regarding Japanese business is due to the following special characteristics which apply to Japan and not to India or the West :

- (i) Most of the Japanese businesses were originally owned by banks who acted as the promoters and co-ordinators of diversified portfolio of businesses. Therefore their present structure owes its origin to this.
- (ii) The central control on individual businesses by the investing bank was necessarily minimal. The contacts among the businesses within a group are not very intense. In other words individual business within a group enjoy great operational freedom.
- (iii) The highly impervious Japanese market; the close co-ordination between Japanese Government and Japanese business houses to create an effective Japan Inc. for external trade; the availability of cheap longer term finance based on very high savings rate; the very restrictive distribution system within Japan, etc., have proved a unique setting for the success of Japanese firms. These do not exist in other countries. In terms of market characteristics, investor attitudes and management culture, India is more similar to U.S.A. and Europe than to Japan.

It is also noteworthy that as Japanese business firms have become global, an increasing number of them are finding it necessary and advantageous to focus strongly on select businesses especially in terms of investment in R&D and Marketing. This is evident in the development of Sony in entertainment electronics and in Toyota, Nissan and Honda in automobiles.

9. Parent/Subsidiary Harmonisation

In the case of companies like Glaxo India which are subsidiaries of global companies there is an added reason for focusing its business. We are a subsidiary of Glaxo Holdings on which we depend for new technology, products and marketing support. The parent company has focused its business on prescription medicines with great success as earlier described. It is prudent for the subsidiary to harmonise its focus with that of the parent, making allowance for any significant local factors that may have to be taken into account. If a subsidiary is not in such harmony it can result in several disadvantages viz :

- (a) In those areas of diversified business where the parent does not have an interest, the subsidiary will not get any support in terms of technology or new products. On the other hand the subsidiary's competitors in that diversified business could well have international support. Therefore that part of the firm could become competitively vulnerable.
- (b) There can be a conflict of interest between parent and subsidiary when it comes to further investment. Whilst the former would want to focus investment in the core business, there will be some champions of the diversified business in the local subsidiary who will want investment in their part of the firm.
- (c) The better managers in the subsidiary company will see the writing on the wall and prefer assignments in the core business, thereby weakening the diversification even further.

In order to avoid these disadvantages, it is advisable to harmonise the product groups of the subsidiary with those of the parent company over a period of time.

In the case of a pharmaceutical firm, such harmonisation and close alliance with the parent is even more compelling than in other industries. This is because the scale of investment required in Research is of a much higher order (15% of sales in Glaxo Group). It has to be conducted on a harmonised global scale and cannot be done in fragmented subsidiaries.

The raising of Glaxo Holdings, equity in Glaxo India marks further strengthening of the alliance between the parent and subsidiary which should definitely benefit us in the longer term.

IV. VISION TO EXTEND THE FOCUS BEYOND THE EXISTING

Focusing the business of a firm does not mean narrowing down its vision with blinkers that limit the firm to a single product line. One of the most disastrous examples of such narrowness of vision has been 'also one of the most spectacular declines in modern business. IBM focused its business so narrowly and for so long on mainframe computers that it missed the wave towards personal computers and smaller computers in general. A large number of smaller firms like H.P., Apple, Compaq, Zenith, etc., took the initiative and today the market has shifted away from IBM who is now left like a beached whale struggling to get back into the swim. Furthermore IBM missed out on recognising the greater importance and sophistication of Software business as distinct from Hardware manufacture. Innovators like Bill Gates of Microsoft stole a march over the lumbering hardware giant. Hardware is now as common as any machine while software technology continues to evolve in sophistication and added value.

Even while focusing the business of a firm, it is essential to exercise a vision that goes beyond the present range—especially into the future evolution of the market and the product lines that could extend or replace existing ones into areas of business that are related to the existing one. In fact as a firm grows in size it could be necessary and advantageous to extend its business into related areas. This will be a well thought out strategic extension of the core business, distinct from opportunistic expansion merely to increase size or financial ratios. The main advantages of such strategic extensions are :-

- (i) spreading the risks which would be larger in a more narrowly based business;
- (ii) using financial and managerial resources to expand the business of the firm, especially if the focus areas does not provide adequate growth opportunities;
- (iii) exploiting new areas of business that may emerge due to advances in science and technology and evolution of the market e.g. biotechnology, information technology, etc.

But while undertaking such strategic extension of the business, the firm will do well to take into account the following factors in order to avoid several of the disadvantages of opportunistic diversification :-

- (i) The businesses into which the firm spreads its areas of business should be related to a significant part of its existing business in terms of market or technology. This is to ensure that the management of the firm has sufficient expertise in the new business.
- (ii) If the extension is vertically into either the supply end or the finishing/distribution end of the chain in its existing business it should be necessary to ensure that the new entity is competitive against independent operators in the same activities. Otherwise these new additions could become uncompetitive and a burden. It will be advisable to keep them as separate profit centres so that they can be exposed and assessed

against independent alternate suppliers who should be given a part of the firm's business in competition against the in house business. Furthermore the in house business should be encouraged and judged by the clientele it can develop outside of the parent business. In short the normal tendency for incestuous feather bedding should be avoided.

- (iii) All indirect costs should be fully allocated to the new business so that a true and fair assessment of its performance is possible. All financial and other transfers between businesses within the same group should be done on an arm's length basis. One possible guideline is to organise each business in a firm in such a manner that if one of the businesses of the firm has to be divested, it will not impose any significant or non-sheddable residual burden on the remainder of the firm.

V. CONCLUSION

As a firm grows in size and scope of its business activities, it is advantageous to try and focus it on a select set of businesses or product groups. This will help to concentrate the application of capital and specialised management resources more effectively in order to gain dominance and higher profitability in those select areas rather than dissipate the resources over a wider front with no possible dominance in any area.

Now that more liberal economic policies have been adopted in India, companies should seriously examine their historic portfolio of businesses. These were accumulated in the highly distorted economic climate which existed in our country for 30 years before 1991. In that climate, opportunism within the artificial constraints created by Government was the dominant driving force for survival and growth of business. Now that several of the distortions of Industrial Licensing, MRTP and FERA have been relaxed, it gives companies an opportunity to choose those areas of business where they have competitive advantage and to increase their market share in those, while divesting other businesses so that resources can be concentrated on the select areas.

However, strategic extension of core business into related areas will become necessary and advantageous at some stage. When such extension is undertaken, adequate care has to be taken to ensure that it is into related areas of business and as independent profit centres.

A firm that mushrooms into an unrelated set of businesses is like a garden that has been allowed to grow wild. A firm should preferably be like a well-kept garden which needs to be planned, tended, pruned and harmonised to yield the best effect. In India, businessmen now have the opportunity to tend their firms with greater freedom based on their own vision and focus.

Note : This does not purport to be a record of the proceedings of the Annual General Meeting. For a copy of the Chairman's full Statement, the Report and the Accounts, please apply to the Secretary, Glaxo India Limited, Dr. Annie Besant Road, Worli, Bombay 400 025.

Glaxo

Jharkhand Autonomy a Far Cry

Tilak D Gupta

The Jharkhand political scenario continues to be dogged by the paradox of a popular autonomy demand burdened with a growingly unpopular leadership.

THE behavioural pattern of the governing circles at Delhi, in responding to the Jharkhand problem, perhaps offers a classical illustration of the Pavlovian theory of conditioned reflex. Every threat of economic blockade brings out a profusion of platitudes about resolving the long-pending autonomy demand of the Jharkhandi people. The crisis over, it is of course business as usual, with none too much bothered about the pile of unkept promises.

It is therefore not at all surprising that vague noises have once again started emanating from the corridors of power in Delhi, about satisfying the aspirations of the people of Jharkhand. The honourable prime minister of India in his independence day speech, for instance, made it a point to refer to the Jharkhand problem and hoped that a solution to it would be found soon. Ironically, Narasimha Rao also saw it fit to urge the leadership of a 60-year old movement not to run out of patience.

Answering a question during the concluding days of the recent monsoon session of the Lok Sabha, the minister of state for internal security, Rajesh Pilot, also appeared to be quite optimistic about an early resolution of the Jharkhand imbroglio. According to Pilot, consensus about a Jharkhand autonomous council for the south Bihar plateau was evolved at a tripartite meeting held last April in Delhi attended also by the Bihar chief minister Laloo Prasad. The minister, too, appealed to the Jharkhandi leadership to amicably sort out the outstanding issues with Laloo Prasad, without resorting to a fresh round of agitation.

Understandably, the immediate reason behind such sympathetic outpourings on the part of central Congress leaders is that the All-Party Jharkhand Struggle Committee (APJSC) has given a call of a Jharkhand bandh on September 15, to be followed by another economic blockade from September 16, to press their demand for regional autonomy for the Chhotanagpur-Santal Parganas region in Bihar. Besides, as many have pointed out, Narasimha Rao is also obliged to make some favourable gestures to the Jharkhandi leaders who, among others, bailed him out during the recent no-confidence motion in parliament.

Despite Pilot's efforts to give an impression that the settlement of the Jharkhand problem is imminent—an impression that was sought to be further reinforced by making the minister's reply the lead news in the evening Hindi news bulletin of the

Doordarshan national network—the fact remains that the negotiations on the Jharkhand autonomous council have not progressed since the 76-day economic blockade organised by the APJSC that ended in May this year. The APJSC leadership, it may be recalled, while withdrawing the blockade at the request of Narasimha Rao, gave a warning that the agitation will be resumed if the monsoon session of the Bihar assembly failed to adopt a bill granting an autonomous council with real administrative and financial teeth.

That the monsoon session of the state legislature concluded without taking up any such bill was not really an unexpected development. It has to be admitted that since his well-publicised "Jharkhand over my dead body" speech, Laloo Prasad has been quite consistent in not yielding any ground beyond a toothless development council for the south Bihar plateau. Factually, the Bihar chief minister is perhaps on a stronger wicket when he denies that any consensus has been reached at Delhi about granting wide financial and administrative powers to a proposed autonomous council.

It is indeed common sense that any chief minister hailing from the Bihar plains, be it of Janata Dal or Congress pedigree, will be loathe to concede any form of genuine autonomy to the mineral-rich Chhotanagpur-Santal Parganas region dotted with heavy industries. The point is not so much that the Jharkhand part of Bihar provides the state with substantial revenue and mineral royalty and the argument that north Bihar—itsself one of the most backward regions in India—thrives by exploiting south Bihar, sounds somewhat silly. More important, the region remains the crucial source for the state's political class and bureaucracy to build private fortunes out of public funds. All important mainstream politicians of the state are known to have their trusted collection agents in the south Bihar plateau and astronomical sums, reportedly, change hands in the state secretariat at Patna for securing a coveted posting in the region.

Looking beyond the petty interests of average Bihar politicians and officials, it has to be acknowledged that much of the trouble now faced by the Jharkhandi leadership in fact is of its own making. The Jharkhand Mukti Morcha (JMM) spearheading the tribal movement for autonomy and the main constituent of APJSC, over the years, is gradually getting alienated from its militant rural base while transforming itself

into a responsible mainstream party that would be considered eligible for sharing power in any future autonomous framework. But the very graduation of the JMM from a movemental organisation of the underdogs to a respectable electoral party has seemingly allowed the ruling circles at Patna and Delhi to take it for granted. Thus, even after pegging down their demand from separate statehood to union territory and then to an autonomous council, only in Bihar, the JMM or the APJSC are being treated in rather cavalier fashion by the rulers in Delhi and Patna.

Secondly, the metamorphosis of the JMM from an organisation representing tribal aspirations for self-determination to one advocating regional autonomy has been only a mixed blessing. The joining of the non-tribal population in the Jharkhand movement in large numbers has no doubt broadened its appeal as well as voting strength. Simultaneously, the riff-raff from the other political parties, climbing the Jharkhand bandwagon, has also tarnished the image of the movement to no small extent. Besides, even some of the old warhorses of the JMM, known for their integrity and militancy, have in course of time, become tired and succumbed to the usual temptations of Indian political life. The role of the JMM members of Lok Sabha during the voting on the recent no-confidence motion against the Narasimha Rao regime is just another instance of the rot that has set in within the movement. Frankly speaking, it is a sad commentary on the prevailing situation that most of the movement's leaders in Bihar are now termed either pro-Congress or pro-Janata Dal, rather than as pro-Jharkhand.

In these circumstances, there is widespread scepticism even among Jharkhand supporters about the APJSC's willingness to launch a sustained struggle for achieving its goal. These doubts get strengthened once it is recalled that all its front-ranking leaders were seen to be staying in Delhi, in virtual exile, during the last economic blockade that evoked little mass response. As for the younger generation of Jharkhandi leaders represented by the All Jharkhand Students' Union (AJSU) and Jharkhand Peoples Party (JPP) that grew out of the student body, their influence remains mainly confined to a small area of south Chhotanagpur. Moreover, the news filtering out of a series of meetings between the Bihar chief minister and the AJSU-JP combine, in the last one month, indicate that Laloo Prasad has partly succeeded in winning over a sizeable section of these outfits to his side for the time being.

It is still unclear whether the APJSC—in which the two reputedly most moneyed politicians of south Bihar, Gyan Ranjan, a Congress MLC, and Subodh Kant Sahay, the former union minister of state for home, are playing increasingly prominent roles—will persist with its declared agitational programme from September 15. But at any rate, there is no denying that the Jharkhand

movement has suffered a setback for the moment. The bulk of the Jharkhandi organisations have reconciled themselves to the idea of an autonomous council with limited powers. What was earlier regarded as a problem concerning four states of Bihar, West Bengal, Orissa and Madhya Pradesh, has now been virtually reduced to an internal problem of Bihar.

One obvious implication of this altered scenario has been that the central government no longer remains the target of the Jharkhand movement. While granting of a separate statehood or union territory status to Jharkhand falls within the centre's jurisdiction, formation of an autonomous council is a state business where the union government is supposed to play, at best, an advisory role. Indeed, the state Janata Dal has a point when it accuses the APJSC leadership of falling prey to the centre's manoeuvres for giving the Jharkhand movement an anti-Laloo Prasad orientation.

While the Bihar chief minister has gone on record that he will convene a special session of the state assembly in September to pilot a new autonomous council bill, it is doubtful whether the Bihar legislature will be able to pass anything to the minimum satisfaction of the Jharkhand organisations. Given the geographical division on the Jharkhand question within the Janata Dal and Congress, as well as the preponderance of legislators from the Bihar plains in the assembly, the chances are that the major demands of APJSC would remain unfulfilled. The APJSC demands, among other things, that central assistance marked for the plateau region should directly flow to the council and 50 per cent of the mineral royalty accruing to Bihar should go its way. Besides, it also wants some law and order powers and administrative authority over government officials working within the council's jurisdiction.

But what will happen to the Jharkhand movement in case the APJSC fails to get an acceptable form of autonomous council? The answer to this question for the moment, however, remains dependent on a number of imponderables in the situation. Going by the battle plans of APJSC, it appears that it is likely to revive its demand for union territory status for the Chhotanagpur-Santhal Parganas area if it does not get a council of its choice. As a matter of fact, the committee's delegations have already met the president, Shankar Dayal Sharma, and the prime minister, to once again press for a union territory in view of Laloo Prasad's known intransigence on the council issue.

It, however, seems most unlikely that Narasimha Rao, though indebted to the Jharkhandi leaders for backing his minority regime in the parliament, will agree to such a demand that runs counter to the existing state policy of not going beyond an autonomous council to resolve ethnic or regional problems. Further, the APJSC, once having

agreed in principle to an autonomous council, will now be in a disadvantageous position while bargaining for a union territory.

The more likely possibility, one feels, is that a weak and fragmented Jharkhand movement might eventually have to settle for a council in Bihar with perhaps some peripheral powers. That such half-measures will fail to satisfy the aspirations of the masses of

the south Bihar plateau to manage their own affairs and leave the autonomy question in the neighbouring tribal-dominated areas, notably in Orissa, wide open, seems to be nobody's concern at the moment. Thus, the Jharkhand political scenario, as far as one can see, will continue to be dogged by the paradox of a popular autonomy demand burdened with a growingly unpopular leadership.

Contemporary Indian Dance: Question of Training

Ranjabati Sircar

The relationship between the traditional training system as it exists today and the body under training is strictly patriarchal: the system is authority, the body is object. The gender dichotomy, without regard to the sexes involved, is clear: the disciple is female, the guru, male; the body feminine-receptive, the system masculine-penetrative. Is such a pattern of training still the best way to develop creativity?

THE physical traditions of the Indian sub-continent are incomparably rich. Each classical style represents a complex system of understanding of movement, rhythm and expression, of which one is difficult enough to master in a life-time let alone two. Any attempt on the part of the contemporary dancer or choreographer working cross-stylistically presupposes a vast understanding. Thus, synthetic formal construction in the contemporary realm is shackled by obvious constraints which leave it vulnerable to superficiality or fragmentation.

A radical reappraisal of Indian dance form travels through the realms of analytical texts like the *Natyashastra*, of martial arts, ayurvedic healing, and yoga, to a core understanding of the body as the integral organism of the inner being. The original imprint of being, 'atma', interacts with the cosmos through breath, 'prana', and animates the material being. It is, essentially, a holistic understanding in which the material fuses with the spiritual, or were never separate at all. Comprehension of this unity can show us that against the dangers of syncretism, our roots offer the possibility of organicity. Dance as yoga, then, is not the representation of the diversity of human existence only, but its representation through a self that has undergone the psychophysical process of analysis-reinterpretation-reassemblage that is training, the total unity of which in the moment of representation is as important as the representation itself.

The layering of socio-cultural influences over this basic understanding constitute form; regional variation has resulted in the diversity of forms extant in India today in the classical stream. Like all other forms, these were each moulded by shifts in the balance of power as reflected in socio-political organisation and historical events. The traditional pattern of training imposed upon

the trainee a set of physical patterns and concomitant mental attitudes concurrent with the concerns surrounding its development. In other words each style reflects its milieu not only in its content but in its form. Thus, Kathakali's use of the upper body as a pillar of strength controlling agile limbs has a martial quality, akin to martial arts of other cultures, which supports its major subject concerns—politics and war. The development of the style is a natural response of the warrior community to the emasculating oppression of colonial rule, allowing it to retain a certain degree of societal control. The Manipuri maibi dance in its vigorous movements and concern with creation reflects the older system of the Meitei in which women hold ritual dominance and economic control; alongside it, the Ras dances show, in their restrained movements and concern with devotion to a god, the later developments in the society after the enforcement of Hinduism and constriction of women's roles. Kathak shows the system of patronage in its 'salaam' and performative shows of virtuosity and reveals the intrigues and obsessions of court society in its treatment of the Krishna theme. In styles which centred on the temple dancer, like Odissi and Bharatnatyam, the emphasis is on the strengths of the female body—the weight of the pelvis and flexibility of torso, neck, and limbs, combined with emotive expression—and the main concern is the man-woman relationship, in keeping with the role of temple dancer as servant not only to the gods but to male authority. Religion, here, provided a plane of liminality.

Having examined some of the imprints that history sets upon dance forms, we can proceed to a more detailed analysis of changes that take place within a form itself. Here, the dancer's body must be taken into account. It is of course the bearer of the

form, and through the form, of a particular historical imprint, but more importantly in my analysis, the dancer's body reflects the relationship of the form to the society contemporaneous with the body. It also reveals, in its muscular patterning, the social eye in relation to the dancer.

If we begin with the earliest models of Bharatnatyam which we find in temple sculpture, we see certain facts to be generally applicable in the semiotics of the bodies represented, in spite of regional and temporal variations. The spine is straight, pelvis and shoulders open, abdomen loose, joints flexible, head, hands and feet supple. The bodies bespeak naturalness and precision, a sense of strength which is flowing, power which is at ease. There is never evidence of strain; although tension may be there, it is as a muscular/skeletal pattern in the control of the dancer. In these ideal representations, the flow of energy throughout the dancing body is so clear, it brings life not only to the geometricity of the movement but to the stone itself. These are bodies integral in themselves. Historically, they represent the time when the dance form was probably most in harmony with the society in which it existed and, as a result, with the bodies which danced.

Moving forward in time, we can look at photographs of devadasis taken by colonials around the turn of the century, and the example of some of the older exponents. The body here is essentially externally relaxed, but reveals held inner tension. Although there is a certain solidity which indicates depth of breathing, the shoulders are usually turned inwards, the pelvis either too far backward or forward of centre, and there is a decided lack of the total fluidity of the sculptures. The eyes may be unusually and deeply expressive, but technique is generally de-emphasised. These bodies, defensively self-conscious, represent the historical period in which the devadasi system had come into conflict with newer values. The old social structure, no longer self-contained, could no longer offer self-justifying support to the system. The dancers' bodies reflect the instability and uncertainty of the situation.

As the third example we may look at the Bharatnatyam of Kalakshetra. The revivalist movement had a particular socio-political agenda which dictated the parameters of revivalist culture. In this case, there was an outstanding need to dissociate the form from its social history. Under the influence of post-Victorian puritanism, sexuality became the culprit responsible for the decline of the dance form, and the devadasis, out of a whole system of exploitation of human sexuality that included the temple, the court, and society at large, became the scapegoats. In denouncing the traditional dancers while appropriating their tradition, the revivalist movement dealt a severe blow to the original integral link of the dance with human

physicality, reduced from *sensuality* through historical circumstance to *sexuality*. Thus, for example, the geometry of the Kalakshetra technique is meticulous, but at the cost of separation of upper and lower body. This is evident in the pulled-up abdominal muscles and backward sway of the pelvis—as if negating the openness of the *mandala* position. Linear clarity recalls the sculptural blueprint, but the two-dimensional, staccato quality characteristic of Kalakshetra calls for extraordinary muscular tension, denying the body's fluidity. Even abhinaya is pushed far beyond the limits of stylised expression and set into rigorous technique. This avoidance of overly erotic content is also a case in point. It is interesting to observe that over the years, individual exponents who have received such training have relaxed their own parameters, because of increased popularity of the form, their own acceptance as dancers in the public sphere, creative or artistic need, or even physical injury.

There has been some ado about the loss of the 'guru-shishya parampara', and how this will cause a second major period of decline in the classical forms. There have been attempts, at various times, to revive the ancient system. Such efforts are no doubt genuine and stem from a desire to contain some impending loss. However, it must be remembered that the traditional training required that the student be completely and absolutely devoted to a process which took place in a closed, controlled environment. The student was apprenticed not only to a teacher, but to an entire way of life, the practical and moral parameters of which were clearly defined. The system created its own kind of being through its particular codes and methods, to suit the needs of the form in question.

The vicissitudes of history have played upon the dancer's body not only through dance forms but in everyday life, in the multifarious ways that history plays upon any human body. The semiotics of the ordinary Indian body has changed drastically over the years. It is subjected physically to polluted air and water, psychologically to socio-cultural bombardment. The urban body is buffeted by the physical tensions of a technological environment and hounded by the increased mental activity that is a hallmark of our times. When we train such a body today using our inherited systems of training, we are thus twice-removed from the base semiotics—that is, the 'physical signature' with which a body entered the training process—of the original, because we do not take into account that aspect of the system which molded even the base semiotics. Is it possible to do full justice to the forms when such a gap exists?

Contemporary dance in India undoubtedly stems from ideological necessity. If we examine the roots of the modern dance movement in the 30s, we find them in the

search for cultural identity. Distinct from the impetus that propelled the classical dance revival movement, the modern dance was a search for something new, fired by various specific causes—political, spiritual, aesthetic, moral, Orientalist—all related to the need for the cultural affirmation of a 'New India'. Revivalism, here, was not an end in itself, but a means to provide fuel and material for creativity.

The ideological standpoint has always been strong in contemporary and modern dance, certainly in terms of content, and in some instances, in terms of form as well. In other words, the subject matter and the movement matter have both come under scrutiny. From this ideological standpoint that the inherited systems of training must also undergo reappraisal. The systems passed down to us, like the forms, also bear the imprint of history. Unlike the forms, we have no record, however slight, or the original modes of teaching. We have nothing to compare with what we know today as parampara. Historically speaking, this too must have undergone numerous adjustments and changes, passed from hand-to-hand and era-to-era. It is marvellous to think of it as a glorious, unchanging tradition, but we also need to be realistic. The desire to glorify tradition in this way as something ancient and timeless is linked to the need to authenticate culture which stems from the Orientalist agenda, reflecting the insecurity about one's own heritage of a colonised people.

The relationship between the traditional training system as it exists today and the body under training is strictly patriarchal: the system is authority, the body is object. Between teacher and student exists an emotional relationship within hierarchy which reinforces the system; the student submits his/her ego to the teacher as the first step in submitting self to the divine—the religious aura surrounding the dance insures the system. The gender dichotomy, without regard to the sexes involved, is clear: the disciple is female, the guru male; the body feminine-receptive, the system masculine-penetrative. It is only after many years of training and performance practice that the imposed system becomes a vehicle for the flowering of inner creativity—ideally, of course. The critics call this 'transcending the technique'; in traditional terms, it is the flowing-through of divine essence as *rasa*.

It is not a question of whether this is 'right' or 'wrong'. It is merely a question of whether such a system is appropriate at this moment of history. Is such a patriarchal relationship of student and teacher still the best way of training, when society's relationship to the body has become increasingly patriarchal—in everyday life, in the family, in the cash nexus of the dance world? It may be the best way to train a student in form, but is it the best way to develop creativity?

Agriculture and Rural Development in 1990s and Beyond: Redesigning Relations
between State and Institutions of Development

Tushaar Shah

Limits of Credit, Not Credit Limits

V M Dandekar

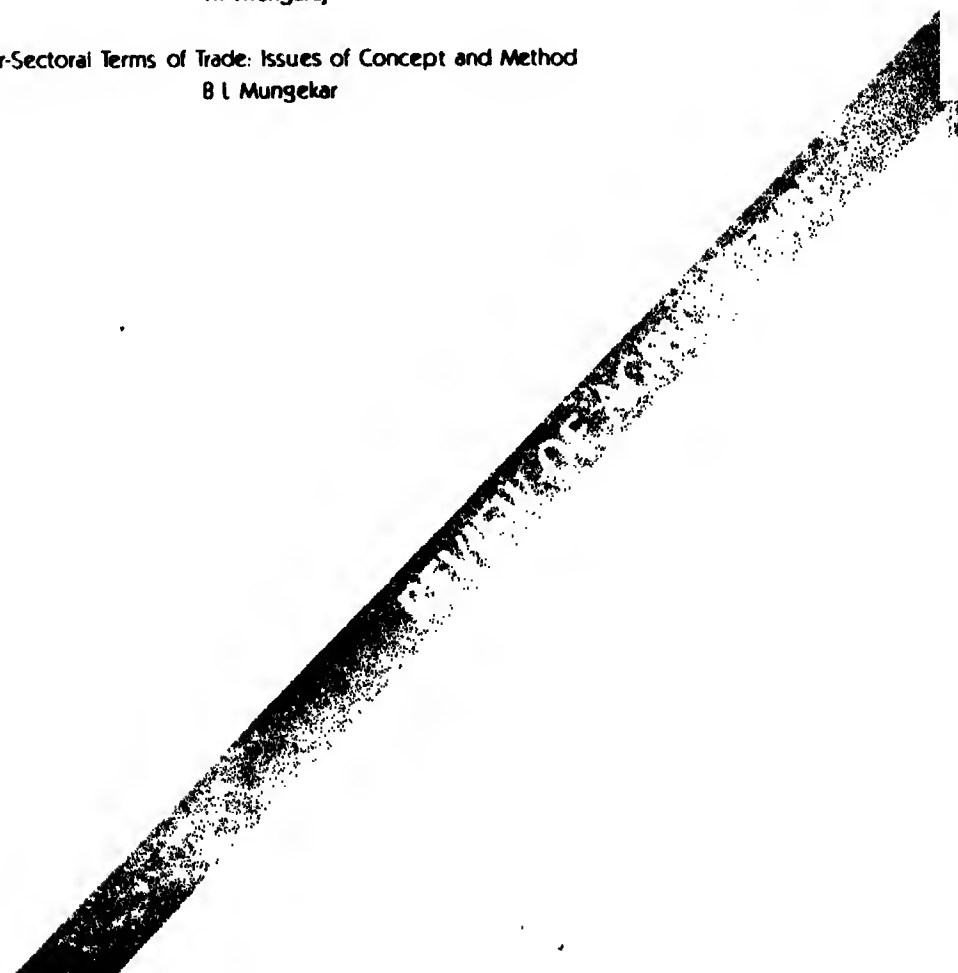
Distribution Pattern of Lift Irrigation in India: An Analysis
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Redesigning Relations between State and Institutions of Development

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In the India on the threshold of the 21st century, orthodox economic planning is unlikely to prepare the nation to meet the challenge of rapid agricultural and rural employment growth that it has failed to tackle so far. More is wrong with India than just the planning of her resource generation and allocation. What India needs to do most is to focus, above all else, on devising radical and innovative strategies that can yield and sustain 5-7 per cent annual growth rate in the value of output of the agricultural sector; and recent experience suggests that in nations which have secured anywhere near such high growth rates, the state and its institutions of economic development have done more than just orthodox economic planning. This seemingly unachievable goal can be achieved, but only by redesigning the chemistry between the state and our institutions of economic development—our legal framework, our markets and our economic organisations in the private, public, co-operative and informal sectors.

In Part I, the Indian agricultural and rural development policy; and in Part II, how it actually operates, are reviewed. Part III assesses the performance of the Indian state as a 'player' in the development process; in contrast, in Part IV, we highlight the contribution of institutions of development as 'players'. Part V explores what all is involved in rolling back the present 'awkward' state and rolling forth the 'subtle' state.

I

Historical Underpinnings

INDIAN agricultural policy and planning in the post-independence era can be divided into two segments: the pre-1965 and the post-1965 period. During both these phases, our national outlook towards agricultural and rural development planning and policy was guided by different mindsets, ideological postures and worldviews, as also of different assumptions about what works and what does not work in our particular context. In the first phase, the structuralist-institutionalist phase, the dominant goal was of creating a modern, progressive and egalitarian rural society, a grand Nehruvian blend of Gandhian and Marxian visions. The instruments of policy devised thus stressed land reforms, community development programme, co-operative farming, and so on. The second phase, the technology-investment phase, emerged primarily out of the disillusionment with the structuralist institutionalist approaches and a dire need to quickly augment food production. It was also spurred, in no small measure, by the recent availability of high-yielding Mexican wheat and maize varieties as a god-send which, if nothing else, alleviated our apprehensions about our capacity to grow our own foodgrains.

Much has been achieved during this period, however, growth in rural population and unemployed labour force have kept pace with our achievements. Besides, the world around us has changed at a relentless pace. As a result, in relative terms, we are worse off today on many counts than we were at the dawn of independence. More-

over, 42 years of experience with agricultural and rural development planning has fostered much national learning for us to reassess the limits of both structuralist-institutionalist as well as technology investment-led approaches. Using a broad-brush approach, this paper suggests that the time is ripe for a paradigm shift;¹ for us to undertake a fundamental re-examination of our past strategies and goals, and question our assumptions about cause-effect relationships; we need to focus much more on how we, as a nation, do things than on what we do. We argue that if India's rural economy has to keep up with the times (and of course, its growing population and rural labour force), we need to break out of both these approaches and pursue a different goal and a different strategy which are more in keeping with our new realities and new times.

IMPRESSIVE ACHIEVEMENTS?

During these last four decades, India's agriculture has grown. While during the 55-year period before independence (1891-1946) the area under cultivation, average yield and total output of all crops grew at rates of 0.4 per cent, 0 per cent and 0.4 per cent respectively during 1949-50/1983-84 period covering 35 years, these quantities grew at rates of 6.8 per cent, 1.4 per cent and 2.6 per cent per year respectively. In case of food production, area yield and total output grew in the pre-independence period at rates of 0.3 per cent, -0.2 per cent and 0.1 per cent respectively, but in post-independence period, these grew at rates of 0.7 per cent, 1.6 per cent and 2.6 per cent per year respectively [Rao and Deshpande 1987]. During

the post-independence period, the rate of growth of foodgrain yields rose from 1.5 per cent per year before 1964-65 to 1.8 per cent per year during 1967-68/1983-84 because of the rapid propagation of green revolution technology in north-western India. Total irrigation potential was expanded from 9.7 mha in 1950-51 to 30.5 mha in 1984-85 and nearly 50 mha by the close of the 1990s although the actual utilisation of irrigation fell far short of the potential created. During the first 35 years of independence, the area under high-yielding varieties shot up from less than 2 mha to 56 mha; the use of chemical fertilisers increased from just 0.1 mmt to 8.4 mmt; of pesticides from 2,400 mt to 50,000 mt. Food production has increased from 55 mmt in 1950-51 to 170 mmt in 1990; and, in keeping with the historical experience of other industrialising nations, the share of agriculture in GDP has suitably declined from 56 per cent in 1950-51 to 38.2 per cent in 1984-85.² Dairy production has increased rapidly from 17 mmt at the dawn of independence to 52 mmt in 1990; once heavily dependent on dairy imports, India became self-sufficient in dairying by the turn of the 1980s. Sugar production increased from 11.5 mmt to 110 mmt; and so did the output of the plantation industry: tea from 27 mmt to 70 mmt, coffee from 2.5 mmt to 22 mmt up to 1989; rubber from 1.4 mmt to 35.8 mmt; and of cash crops: cotton from 3,044 m bales to 8,686 m bales; jute from 3,300 m bales to 6,625 m bales; tobacco from 26.1 mmt to 49.1 mmt.

Many scholars laud these as impressive achievements; so they may appear, but only when compared to a handful of nations in the world, who during the last five decades,

have performed less well than we have. Worse still, this growth has just not been good enough when compared to the growth of our population; as a result, converted to per capita terms, many of these good-looking steeply rising output curves become flat when they do not actually stoop down. Mahalanobis, Nehru's economic vizier, had asserted the primacy of heavy industrialisation and investment in a powerful capital goods sector as the route to high growth rate in agriculture and consumer goods sector two decades later. Four decades have passed since then; and the rural economy has stayed put, more or less.

The moot point is: all these achievements have done little to improve the conditions of large and growing mass of our rural poor; and much less to enhance their capacity to improve their lot in the long run; indeed, when compared to what we need to achieve, what we have already achieved pales into insignificance. If the going continues to be what it has been like in the past, India will enter the 21st century a miserable nation; with an army of 300 million half-clad, hungry rural unemployed and under-employed, a per caput rural income of no more than Rs 900 per year, an average landholding of about 1.5 ha; with 55 per cent literacy rates, and little or no rural social infrastructure to speak of. Certainly not prime minister Rajiv Gandhi's idea of an India entering the 21st century.

Many things went wrong. Land reforms, on which much stress was laid during the first phase all but failed. In the 1960s, much euphoria was created when the government passed a special act of the parliament to take away the power of the judiciary to slow down the implementation of ceiling laws; but the same government helplessly watched the administration and political elite making a mockery of the laws. The move from sublime to ridiculous took but few years. Many social researchers of yesteryears, who believed that structural change was the basic pre-condition to creating an egalitarian society were completely disillusioned by what followed. M L Dantwala, a doyen amongst them, who had argued that "a direct attack on (rural poverty) without an equally direct attack on the (socio-economic) structure which has bred poverty ... is an illusion at best, fraud at worst..." wrote years later "Except Zamindari abolition and tenancy legislation (that too in only) some states, on all-India scale land reforms have not been effective. This is particularly true of ceiling legislation" [Dantwala 1987:152].

The experience of land reforms has been an important lesson in the political economy of structural reform and the limits to efficacious state intervention in executing such reforms. Like in Japan and Korea, land reforms in India too would have perhaps worked if they had been enforced by some

British McArthur in the late 1800s; but even we keep paying occasional lip service to them, it is unlikely that effective land reforms can be the part of any serious strategy of rural development in India of the 1990s.

Anti-poverty programmes are essentially an act of penance performed by the Indian state begging remission from the nation's poor whom it let down on structural reform. The 1970s and 80s have witnessed the launching of several of these—IRDP as a non-land asset transfer programme; EGS, RLEGP and NREP as wage employment programmes, TRYSEM as a skill-building and HRD type programme for artisans and unemployed youth and a number of other specialised programmes. Numerous studies and scholarly reports produced claims and counter-claims about the proportion by which all these programme have raised the BPL families above the poverty line.

At more earthy levels, numerous stories of the 'stolen bore-wells', of the 'circulating IRDP buffalo', of the devastating vet-patwari-bank officer-trader-beneficiary combine began doing rounds in development folklore. By mid-1980s, however, the nation resigned to a fair degree of consensus that but a tiny fraction of the resources earmarked for target groups actually reach them; prime minister Indira Gandhi conceded this, somewhat guardedly, as early as in 1984; prime minister Rajiv Gandhi conceded this categorically, owning up that no more than 15 per cent of the money his government earmarked for anti-poverty programmes actually reached the poor.

ANTI-POVERTY OR PRO-RICH PROGRAMMES?

Even if all their money reached the poor, anti-poverty programmes may not help the lot of the poor; indeed, they may actually worsen it. Or at least that is what some researchers argued. In a 1988 paper, Nilkantha Rath argued forcefully that IRDP just can not do 'garibi hatao'; he suggested instead, more of wage employment programmes *a la* EGS [Rath 1985]. But reports of massive corruption in EGS, RLEGP and even JRY began appearing. Let alone doing good, detailed studies began to ask if anti-poverty programmes are not decisively pro-rich. A few years ago, professor Dantwala quoted the conclusion of a simulation model thus: "a spill over effect of a net injection of one rupee to the rural bottom class would result in an overall increase in income of Rs 1.916 in rural areas, distributed in Re 0.213 to the bottom class, Re 0.520 to the middle class and Rs 1.183 to the top class (apart from an income generation of Re 0.640 in the urban class)" [Dantwala 1987].

And if anti-poverty programmes are just an act of expiation, it is fruitless to expect them to resolve enduring problems of soci-

ety; India is not the only country which has tried anti-poverty programmes; many have. Even in other developing countries, somewhat better administered than we are, evidence about anti-poverty programmes is not very different. Through such programmes, it seems it is a lot easier to make income distribution worse than to improve it. A study by Adelman and Robinson of the Korean anti-poverty programmes concluded. "Most anti-poverty policies eventually help the rich and the middle income groups more than they help the poor...(and this is true) even when the rich are taxed progressively to finance the anti-poverty programmes and there is no graft, corruption, diversion or stupidity in their execution".

Thus, all is certainly not well with our agricultural and rural development policy; as a consequence, rather than becoming the engine of our economic growth, the Indian rural sector has become a drag on the economy. As India struggles, over the coming decades, to pull itself up by the bootstraps, it is unlikely to find much success unless it succeeds in turning around its agriculture and rural economy. What all this would involve is a matter of much conjecture and analysis; but one thing is clear: even if well-administered anti-poverty programmes can provide succour to the poor, they cannot remove poverty.

Linear thinking and linear projections do not inspire hope for a bright future. It is unlikely that population growth rate will fall perceptibly below 2 per cent for quite some time; there are no technological breakthroughs on the horizon neither do we see such clan vital in the agricultural research establishments. In the meanwhile, under inexorable pressure of rising rural population and workforce, the average holding size displayed a secular decline from 2.69 ha in 1960-61 to 1.82 in 1980-81 and further to 1.5 ha in 1990-91. And, counter-intuitively, crowding at the bottom of the landholding ladder rather than at the top has emerged as the major source of growing rural economic inequality. In the 50th annual conference of agricultural economists at Hissar, V M Dandekar asserted that the central problem we need to tackle in rural development is how to make a marginal farm into a viable economic unit. Significantly, study after study has pointed out strong and immediate inverse relationship between agricultural growth and rural poverty indices. Montek Ahluvalia's time series analysis of all-India data found such relationship in 1978; and a rerun of the same exercise on a larger data set by the author 10 years later confirmed it once again [Ahluvalia 1978; 1986]. Hanumantha Rao (1986) too found the same relationship. Using district-wise cross section comparisons in Andhra Pradesh, Radhakrishna and Reddy (1985) too concluded that the proportion of BPL families

tell as the pace of agricultural growth increased; and so did Mundle (1983) through an inter-state comparative analysis. This growing evidence seems to suggest not only that there may be no conflict between growth and equity, but as a matter of fact, rapid agricultural growth may be the only sustainable answer to the plight of India's rural poor.

What India's rural economy seems to need most is to break out of what late Raja Krishna called the 'Hindu rate of growth' of 2.5 per year. Above everything else, what we need is to gun for the real value of agricultural output to growth at 5-7 per cent per year for 15-20 years; for then, by around 2,000, we would have broken out of the 'poverty trap'. With an employment elasticity with respect to the value of agricultural output of even 0.3 to 0.4, we will have cleared the backlog of the rural unemployed by the early years of the next century. There is no hope for a decent livelihood for every Indian even then; however, even as crowding at the bottom continues, being a plain agricultural labourer or a marginal farmer in much of India will be half (or less) as bad as it has been in recent years. This kind of growth in the agricultural-rural economy cannot come from economic planning of the variety we have pursued so far; neither can it come from tinkering around with resource allocation nor from a sterile search for technological miracles; it can come only from a quantum jump in the way we, as a society, think and work.

II

Planning and Command Economy: 1950-90

The Classical view of public policy assumes that public intervention in economic affairs takes essentially three forms: taxes and subsidies, regulation, and public production. Besides revenue generation, taxes serve the important purpose of guiding incentives at different levels of economic structure: contrary-wise, subsidies (negative taxes) stimulate economic activity considered socially or economically desirable. The state also intervenes through law and quasi-legal instruments which work better in 'regulating' than in 'stimulating'. When the state cannot 'stimulate' economic activity to desirable levels in certain sectors either through tax/subsidy approach or through legal approach, it turns an entrepreneur/economic player itself and undertakes 'public production' of that activity. In this view, planning would essentially involve planning of public investments and supportive incentive and regulatory structure.

The Indian state has extensively used numerous combinations of all these three categories of public intervention in economic activity. The state has assumed the

role of an entrepreneur in establishing co-operative organisations; as an entrepreneur-manager in creating organisations like the Food Corporation and the State Trading Corporation; it has undertaken public production of rural development services through myriad forms: organisations (like the DRDAs), programmes (like the JRY), and campaigns (such as the technology missions and literacy campaigns). A major input in all these interventions has been investment of resources; however, resources by no means have been the decisive input in determining the success or failure of these interventions.

The failure of the Indian agricultural and rural development policy is to be explained not so much by inadequate or mal-allocated investment as by the indifferent performance of the state in devising and deploying all these three sets of instruments of public intervention in a manner that would achieve overall goals of policy. There are four common drawbacks which characterise this institutional failure in all state interventions:

(a) goal confusion: most interventions end up trying to achieve more than one, and often conflicting goals;

(b) mistargeting: most fully or partly miss their target groups or objects;

(c) redundancy: most tend to survive long after they stop serving their original purpose; we have singularly failed in devising an 'exit procedure' for interventions/organisations no longer relevant to their original goals; and finally,

(d) negative loops: most end up in the centre of a new political economy that gets created as the consequence of their implementation with deeply entrenched pressure groups and vested interests (the 10 per cent-wallahs, as these have come to be popularly known).

These are not peculiar to India: indeed, these are general features of state intervention in economic sphere in modern economic development everywhere [see, e.g., Lipson 1991]; what is peculiar to India is that we have failed to recognise and manage these drawbacks as effectively as some other nations have (often by abolishing such interventions). There often are, within India or in countries with comparable conditions, superior and more efficient examples of achieving the same goals for which the state intervention was planned in the first place; as a nation, we have tended to learn little from these, much less to make mid-course corrections on the basis of such new learning.

SUBSIDIES

Subsidies have been extensively used in the Indian agricultural-rural economy as a means to guide incentives and as means to

effect direct or indirect resource transfer to weaker sections. Fertiliser subsidies are an example of the first; and food subsidies exemplify indirect resource transfer, and the million-well-scheme illustrates attempts at direct resource transfer to poor. There is much formal research and investigation on the effectiveness of subsidies in Indian agricultural-rural development field. The Dagli Committee Report (1967) on controls and subsidies highlighted the general evils that subsidies and non-market controls engender. Minhas's recent analysis (1991) of the Public Distribution System is a good example of the mistargeting of food subsidies; Rajagopalan (1982) showed long ago that 44-60 per cent of the subsidised sugar leaks out of the PDS into the open trade. Phansalkar (1990) has explored very recently how subsidised sale of edible oils through PDS is diverted by trade for adulteration and how the rents so generated lubricate Gujarat's political machine. Gulati's analysis (1990) shows how hidden subsidies allow Punjab to be nation's largest rice growing state although it makes no economic sense it to do so. Most recently, the chairman of the Commission on Agricultural Costs and Prices has strongly argued for reducing the 'retention price' of fertiliser; he has shown convincingly that in the name of subsidies to farmers, it is the fertiliser companies which walk away with the 'cream' by overpricing their plants and equipment and stashing away hundreds of crores.

The broad conclusion of this corpus of research is: subsidies always tend to outlive their utility; seldom fully reach their target groups, and are almost always used as instruments of patronage. Each new subsidy springs in to action a new class of 'rent seekers'—the 'per cent-wallahs'—who earn their living not by productive activity but as specialists in mastering the procedures and cultivating the 'contacts' needed to secure their 'cut' in subsidies. Finally and most importantly, subsidies interfere with normal processes of development even when they are diligently planned. This is most evident in biogas programmes. A 1988 study by IRMA of biogas programmes implemented by NGOs suggested that cash surplus available from biogas subsidy was often the prime beneficiary goal in installing a biogas plant; far too often, the plant was seldom meant for use; and therefore, naturally, the digester was never filled.

REGULATION

State regulates actions of private organisations and individuals through a legal framework consisting of laws, quasi-legal instruments and GFRs. The legal framework is the foundation of modern civilised society. However, if this framework is not

adaptable to the needs of a modernising society, it can stifle development. Laws are the primary instrument state uses to operationalise ideology; the legal framework of a society at a given point in history therefore provides strong indication about how sensitively is the state able to adapt the vision of the society it wants to create to its understanding of how laws actually influence the course societies take. Thus the Nehruvian socialist state enacted MRTP as an instrument to contain excessive concentration of wealth and economic power; it enacted the Industrial Policy Resolution of 1956 to place state at the commanding heights of the economy; it enacted land reforms acts to restructure property rights. That the land reforms acts remained on paper and that the other two laws were very nearly scrapped by the present government is an indication that the Indian state was not adept at judging how laws could affect people, institutions and society; worse, it took long to learn and to devise better instruments.

The co-operative societies act is a classic example of how a legal framework can stall the growth of a whole movement for four decades. In the apparent fear that an independent, member controlled co-operative movement would be prone to sabotage by local vested interests, the law has perpetuated the hegemony of the government and the bureaucracy over co-operatives. Our present co-operative act, enacted in 1904, is a colonial act reflecting the natural propensity of the alien ruler to control native institutions, and therefore provides enormous powers to the registrar of co-operatives. In recent decades, rather than protecting co-operatives from petty, sectional interests, the law has been unabashedly used, in numerous instances, by politicians and petty bureaucrats to stifle their growth by superseding their boards and suspending elections to their boards for decades. In Tamil Nadu, elections to co-operatives were not held for 15 years; and in Andhra Pradesh, for 10 years.

The prevailing legal framework formulates the immediate legal environment within which people and institutions operate. A farmer plants and protects trees if the law upholds his right to be its owner—which would include the right to use, cut, sell, transfer, lend, gift or do whatever he wants with his tree. When laws curtail private property rights, even partially, they hit incentives in economic activities. Worse, when laws/regulations are made without appreciating the dynamics of implementing them on the ground, they create a complex maze of criss-crossing impacts: the strong and the smart turn the new regulation to their maximum advantage; the weak and the conscientious, end up suckers. In this context, the destructive power of GRs has been extensively studied in recent times in the context

of natural resources. Several scholars including Saxena (1990), Shah (1986), Singh (1988), Chambers et al (1990) have highlighted how numerous restrictions on harvesting, transporting and marketing of privately owned trees induce rent seeking by petty forest officials, depress incentives in tree cultivation and protection, and hit forest-based tribal economies in many states including Orissa, West Bengal, Maharashtra and Gujarat.

When laws fail to curb economic activity of the forbidden class, they result in a parallel economy operating on its own devious logic. Shah (1991) has documented such phenomena in case of siting and licensing restrictions for installing wells. In this case, since direct implementation is impossible, the electricity board and financial institutions enforce the norms before granting power connection and loan respectively. The norms do not affect the resource rich who use diesel pumps and are able to self-finance their investment; or, of course, who can get both power connection, loan as well as subsidy—by making what economists euphemistically call 'side payments'. As with subsidies, here too tight linkage between instruments and targets is not possible; and therefore numerous regulations produce unpredictable impacts which typically hit economic activity as well as poor people.

DIRECT ACTION

A recent analysis by Liberman and Ahluwalia (1990) of state's direct intervention in markets has confirmed the conclusion of several other such earlier studies. Through such direct intervention, the society buys an indifferent social outcome at prohibitive social price. The instruments state creates to intervene in the markets end up, over less than a decade, monolithic, inefficient, self-serving white elephants. The Food Corporation of India is but one example. Created in 1957 in response to the recommendation by the Ashok Mehta committee, the FCI grew into a colossus employing nearly 80,000 workers. In its chequered history, the FCI was never viable, its staggering losses cumulating to several hundred crores during 1958-89 period. Directionless and without a long-term strategy, the FCI became a den of corruption and inefficiency. With strong labour unions, the operating costs shot up to unheard of levels; to cite an example, the FCI's average loading cost is Rs 200/mt compared to Rs 25 for private grain handlers; its storage losses have averaged 3 per cent compared to 0.5 per cent for private handlers; its grain losses due to moisture alone are what private handlers tolerate under all categories. Organisations like the FCI are beyond redemption; difficult to manage. impos-

sible to turn around.

Providing support prices to farmers and building a foodgrain bufferstock is an important task for the nation; but FCI may well be too high a price for getting such a task performed, particularly as in recent times we have witnessed several new institutional innovations in market intervention in which state plays a supportive role but autonomous networks/organisations perform market interventions. Two examples of such intervention are mentioned later. Both are strikingly different from state intervention in foodgrains; more efficient in economic terms, more effective in achieving their goals. Both are more professionally executed and, finally, have produced dramatically improved producer incentives. Above all, neither has needed a monolith like the FCI.

III

State as a Player

Americans use the term 'smart' for someone who appears idealistic and sensitive but is also pragmatic and practical. In the American slang, the Indian bureaucracy, politicians, rent seekers and organised labour have been very 'smart'; while talking constantly of the poor and their development, they have never lost sight of which side of their bread is butter. But the Indian state—and, of course, its poor—have been far from 'smart'. If the Indian state had been 'smart' and had sincerely desired to serve the larger interests of its people, it would have played its cards better. But as a player in the field of development, rather than going about its business in a brisk and business-like manner, the Indian state has continually got detracted by scholarly discourses of socialism here and of free market there. In the process, it got its priorities all mixed up and ended up doing bad jobs of where it ought not to have been in the first place. We choose four roles the Indian state has consistently mal-performed; the first two, it could have largely done without; but not the other two, where state as a player will have to do better.

Throughout this paper, we have used the term 'monitor' to denote the governance structure of any human system.⁴ In all organised human activity, apart from professional and technical staff, there is always need for a 'monitor' whose primary task is to ensure that the organisation functions in keeping with its goals. In broader terms, the role of the 'monitor' is to establish and maintain consonance between the interests of those with direct stake in the performance of the organisation and the actions of the managers/administrators of the organisation. In classical business corporations, this role was played by a board elected by shareholders who are its owners; in a co-operative, it

is played by a board of directors elected by the members who are the owners as well as users of the services of the co-operative. This is so presumably because a corporation and a co-operative exist to serve well-defined groups of people who own them and who therefore have a more enduring and direct interest in ensuring that professionals manage them in long-term interests of their owners.

The sterling principle was violated with great success, by the American corporations which by the 1950s had established the practice of separation between ownership and control. It succeeded, among other things, because the constant threat of decline in the market value of the share—the key index of a management team's performance—was control enough on the managers to perform; there was also constant threat of take over bids which kept corporate managers on their toes. Be that as it may, the success of this managerial capitalism reduced owners of a business corporation to mere suppliers of capital entitled to moderately rising market value of the share. It also extruded them from the governance structure of the corporation—its board of directors, which increasingly became a dummy of the professional manager. The success of the corporation established the practice as a principle that left to themselves, professionals and civil servants will manage the organisations in the best interests of their owners and stakeholders. The role of the 'monitor' was merged with that of the 'manager' and was entrusted to the hired professional. This was a complete reversal of the classical owner-manager stereotype in which the owner, the biggest stakeholder, sank with the organisation if he failed as a manager.

The success of this 'managerial capitalism' did incalculable damage to our understanding of how human organisations are best governed. Luckily, however, this success lasted for less than 50 years. The onset of the 1980s witnessed the rise of the Japanese competition which has beaten the American corporation hollow. Moreover, increasing take overs of corporations by LBOs and pension funds have created fundamental crises in America's industrial capitalism; and uppermost in the agenda of business leaders and researchers in the US during the 1990s is how to get owner control back into her corporations many of which have become huge, flabby, bureaucratic, self-serving organisations unable to compete in the market place. Harvard Business Review, the most prestigious of American business journals, recently led an open debate on owner control in corporations as the major vehicle to restoring America's competitive edge.⁵ The sterling principle is back in circulation: that a human system is best governed by those who have great-

est stake in its performance.

Unwittingly, the command economy back home has negated this principle *ab initio*. This has meant that regardless of whether it is a co-operative of farmers or a canal authority created to serve the needs of irrigators or a DRDA created to 'deliver' development to poor, or an electricity board, the state plays 'monitor' to organisations it creates; and in this capacity, the state is represented either by a politician or a civil servant who neither represents (potential) owners nor users nor principal stakeholders of these organisations. Happily enough, there is also no market valuation of these enterprises so that there is neither market control nor any obligation to provide information, except that provided by managers, so that the society can learn about the performance of these organisations. Separation of stakeholding/ownership and control is complete right from the beginning.

It is no surprise therefore that most of these organisations are born flabby, bureaucratic, self-serving organisations. How well is the crucial 'monitor' role performed is determined not so much by personal stake (and the motivation that only personal stake can foster) but by how conscientious the ruling politician/bureaucratic happens to be towards his job; and how long is he given before he is transferred to some other job. The result has been there for us to see: in the low plant load factors, high transmission and distribution losses and the pathetic balance sheets of our state electricity boards; in long delays and cost over-runs, low irrigation intensities, large shortfalls in actual versus design commands of canal irrigation projects; in our fraudulent rural development programmes and our moribund agricultural co-operative system—all of which have the state as the 'monitor'. It is evident in the miserable performance of numerous organisations to which the state plays monitor or worse, monitor-cum-manager: National Seeds Corporation, State Farms Corporation of India; State Trading Corporation, Cotton Corporation, Jute Corporation, Central Seeds Certification Board, Hindustan Vegetable Oil Development Board, National Horticulture Board, and so on.

Two points are being made: first, the state's primary job is to be 'monitor' to the nation or region; when state assumes the role of the 'monitor' to a co-operative or a business organisation, it in effect transfers this crucial function to someone who is neither accountable to the owners nor the principal stakeholders of that business but to some one/agency who often has even less stake in the business. Second, as a result, there is no way those affected by good or bad performance of the organisation can influence/improve its management.

In its role as a 'monitor', the indifferent performance of the state results from the

structural difficulty in linking performance demand system with governance structure of state-operated organisations. But besides being the 'monitor', the state is also usually the manager in many such organisations; in DRDAs state plays rural development manager who is not accountable for performance to the poor people to whom it is created to deliver the wherewithal for development; in canal irrigation authorities, it plays irrigation manager but the executive engineer in charge of a system is not accountable to the farmers who are the principal users of the irrigation service; in the agricultural research system, the state plays research manager but is not able to make the research system directly accountable to farmers, the ultimate users of the output of their effort.

Problems of stake are also acute here, be it the executive engineer in charge of a canal project or a DRDA director. When an IAS officer is the top manager, there are additional problems; his planning horizon seldom exceeds two years; six months or less is more common. For most IAS officers, postings to DRDAs, CADAs, co-operatives and tribal development corporations are opportunities for 'cooling their heels' before they proceed to more meaty postings; even as they absent-mindedly alleviate a few poor here and uplift a few tribals there, the eye is constantly on a probable posting in finance and economic ministries, if possible, in Delhi; if that is not possible, state industries corporation or even electricity board would do, thank you. Search for such preferred postings can take substantial effort and frequent visits to state capital; in any case since CRs are not written by tribals or poor people, it is easy to take it easy.

In the arena of development policy, the important contribution needed from state is in terms of creating a congenial, stable, long-term macro-policy environment within which institutions of development can emerge and operate. This would include stable long-term economic policies based primarily on economic logic and devoid of chauvinism of any kind; it would include state projecting itself as protector of certain basic and inalienable values and of institutions; finally, it would include stability and predictability in the legal framework of society. In this last, we include not only the laws of the land but also the credibility of the legal system and the effectiveness with which laws actually deter citizens from the actions they bar. Repeated failure to enforce legal provisions impairs this effectiveness of the legal system; and to that extent, rule of law gives way to the rule of the jungle. In this respect, Gunnar Myrdal considered India to be a 'soft' state; we legislate far more than we enforce. Land reforms and their tardy implementation, which we discussed earlier, is an example of this argument.

The most important role of the state is as the protector of institutions of development; when it fails in this regard, the impact on the institutional fabric is incalculable even when not apparent. The Indian state is notorious in devouring the nation's institutions of economic development often for paltry and short-lived political gains. Two examples will suffice to make the point. Tamil Nadu and Andhra Pradesh had among the more vibrant rural co-operative movements in the country. Indeed, Tamil Nadu was pioneer in dairy co-operatives as also in weavers' co-operative movements. An important role of the state *vis-a-vis* co-operative movement is to protect the spirit of democratic governance which is the hallmark of co-operatives. The state failed to perform its role as a protector of these democratic local institutions; in both these states, throughout the 1970s and the 80s, the ruling state governments used our archaic co-operative act as a political weapon and suspended elections in co-operatives as well as panchayats. Compared to the political capital it created for the ruling parties, the long-term damage it imposed over the institutional fabric of those two states is enormous and can be gauged only by comparing their co-operatives with co-operatives in states like Gujarat and Maharashtra where the ruling elite, however different in their political outlook, protected the state's local democratic institutions.

The second instance of the state delivering lethal blow to an institution of development is the loan waiver decision of the government of prime minister V P Singh. Today, nearly two years after that decision was taken, it is clear that the co-operatives will find it impossible to recover even those loans which were not waived; that the recovery percentage of many well functioning PACS, LAMPS and FSSs has tumbled from 60 per cent plus to less than 5 per cent; that in Maharashtra and elsewhere, co-operatives themselves have denounced and opposed the measure; that the principal beneficiaries of loan waiver, once again, are the well-off borrowers at whom it was not targeted; and that the only way hundreds of thousands of our PACS, LAMPS and FSSs can continue to function as economic entities is by severing permanently their credit operations which otherwise would make them completely unviable; that at one stroke, this measure has destroyed the credibility of the entire rural credit system which it will take decades to rebuild.

The Constitution of India guarantees certain fundamental rights to all the citizens of India. The preamble to the Constitution also sets out our leaders' vision of the society they wanted to create. One of the principal functions of the state is to protect the rights of individual *vis-a-vis* the society; at the same time, it is also the task of the state to

protect the rights of the totality of the Indian people against individuals or groups. It is often said that law is an ass; whoever finds the stick to beat it with, enslaves law and makes it serve his purpose. As individuals, we often come across cases of poor people, tribals, women and children who are not able to secure the stick and therefore suffer at the hands of law. Trade unions, consumer associations, producer organisations, etc., are institutional devices, which *inter alia*, strive to make the law work for their respective patrons.

The totality of a nation's citizenry—and its unborn future generations—are often as weak as a child or a tribal in getting the law to protect its rights. Mancur Olson's thesis applies with maximum force when it comes to the totality of a society protecting its rights against individuals or powerful pressure groups.⁶ Since the protection of the rights of the totality is a public good, it would always be in undersupply; therefore, the totality will always be exploited by resourceful pressure groups unless the state judiciously strikes a balance between the rights of the totality versus the rights of individuals and pressure groups. In actuality, the Indian state has ended up protecting rights of sections which are either articulate and/or politically active; these include labour unions in organised sectors, kulaks' organisations such as the Kisan Sabha, and vocal urban consumers. Indeed, some of these organisations have become so powerful that they have begun to affect the performance of institutions of economic development.

The increasing conflict between organised labour and productivity and efficiency gains in the organised sector is a direct consequence of this hiatus. There is no need to belabour the point that one of the principal beneficiaries of post-independence Indian economic development has been the organised labour. There has been mounting evidence that the contribution of organised labour to nation building has not been commensurate with the increasing share of the national cake that they have usurped for themselves. In many large organisations, particularly in the public sector, the prevailing labour-environment—dominated as it is by the power of the unions and the labour laws—is getting increasingly inconducive to rapid productivity increases, efficiency gains and performance improvements. Occasional and feeble outbursts by consumer organisations pose very little by way of challenge to some of the well established bureaucracies in public sector organisations. Leave alone goal achievement, it has become impossible to maintain a rudimentary sense of discipline in many of these organisations. While it is nobody's case that the rights of labour should not be protected, the Indian state has far greater responsibility

to the several hundred million of unorganised rural labour and, of course, the unemployed than the powerful tiny minority of organised sector employees. The point is that a state whose primary concern is to nurture and strengthen institutions of economic development cannot afford to allow the balance to be so tilted in favour of organised labour that they can eat into the vitals of their institutions and the economy.

IV

Institutions as Engines of Development

The most devastating impact of the Indian state intervention in rural economy has been the one on our national mindset: it has bred a powerful, unerasable 'sarkar mai-baap syndrome' pervading the entire development scene. When a social researcher interviews a rural citizen—landless, large farmer, artisan, teacher, nurse—about any problem—personal, organisational, social, political or professional—the dialogue will continue until it concludes with something that the 'sarkar' should do. Regrettably, often the researchers also end up writing only what sarkar should or should not do; more regrettably, through the length and breadth of its vast presence, the sarkar functionaries too have begun to deeply believe in this self-fulfilling prophecy. At the policy planning level, this 'syndrome' has reinforced the notion of the state as the sole generator of developmental impulse; and led decision-makers to ignore or understress the powerful role institutions can and do fill as development players. The creation and sustenance of new economic organisations, particularly of farmers, put into operation powerful engines of local economic growth. The skill and sensitivity with which state interacts with these in their formative stages has undelible impact on the patterns of their life cycle.

EMERGING A LOCAL ECONOMY

The history of Indian development is replete with examples of new organisational structures having produced powerful growth stimuli. We begin with the example of dairy co-operatives of Gujarat which starting with the Kaira co-operative in late 1940s spread to other districts in central and north Gujarat. Much has been written about the economic impacts of these co-operatives and the fact that because of the institutional structure for procurement, processing and marketing, and for production enhancement and technical change that they provided, Gujarat's GDP from dairying has consistently increased at a rate of above 8 per cent, and in several spells, of well above 10 per cent over the last two decades. The direct annual capital investment made by state and para-statal in

these co-operatives has been less than one per cent of the value of annual milk output of co-operative members although the members themselves and their primary co-operatives have been systematically investing in cross-breeding and other technologies of production enhancement. In Gujarat's GDP of around Rs 10,000 crore, dairying accounts for some Rs 1,200 crore, supporting livelihoods of some 2.5 million of Gujarat's rural households.

In many other regions, better endowed for dairy development than central Gujarat, dairying as an economy has lagged through out the 1960s and 70s and continue to do so. As prime minister, Lal Bahadur Shastri tried hard to figure out why dairying was not doing as well in western UP as it was in Kheda. A major explanation was that milk producers of western Uttar Pradesh did not have the institution of economic development that the farmers of Kheda had built for themselves. Alternatively, the state in Gujarat was wise and foresighted enough to support, nurture and enable a young Amul with milk producers themselves as its monitor. The 'state' in Uttar Pradesh was less subtle and assumed itself the role of the manager as well as the monitor; and refused to learn ever since. Much as Shastri tried to create Anands in Uttar Pradesh, his home state and many other states could not create institutions of dairy development with the same plan vital as Gujarat's dairy co-operatives had. And thousand crore of state investment cannot do dairying in those states that a few tens of crores did in Gujarat—through the dairy co-operatives.

Similar is the case of the role played by sugar co-operatives in the evolving economies of south Gujarat and Maharashtra. In 1990, south Gujarat's 12 sugar co-operatives paid over Rs 250 crore to their members as payments for cane, employed over 5,000 workers in cane crushing and over 25,000 more in cane harvesting. The cane yield in the area has grown at a rate of 6 per cent since 1975 when cane cultivation began in a big way; rapid technological change—in the form of new varieties, cultivation practices, new inputs, etc.—have been ushered in by the co-operatives which are their fountainhead. Over a short period of 15 years, an otherwise modest looking economy based on inferior cereals, vegetables and cotton has been transformed into a booming economy based on sugar cane. The sugar co-operatives have served as the engines of this growth; and their tremendous economic significance in the local economy is signified by the skyrocketing prices of the right to supply cane to them which ranges between Rs 10,000 to 1,25,000 [Rajagopalan and Shah 1991].

Dairy and sugar co-operatives of Gujarat and Maharashtra are exceptions that prove the rule that the power of co-operatives as

engines of economic growth varies inversely with the extent to which the state treats them as instruments of state craft. Many theories have been propounded to explain why co-operatives have succeed only in these two states; there may be elements of truth in all these. However, the principal factor that explains their poor performance in many other regions is the oppressive and overbearing influence of the state.

In managing a developing agricultural economy, commodity and input markets play an important role. When the capacity of markets to provide suitable price signals to producers and consumers and to clear the demand and supply on a periodic basis gets impaired due to imperfections, a modicum of market regulation becomes an important pre-condition for productivity growth and technological change. The problem is that regulating the market is a fine art which can be performed with specialised skills and resources far more easily and effectively than with brute force of the state. This we learnt the hard way by taking over the wholesale trade in grain, and then by quickly retracing, by creating monoliths like the Food Corporation of India and the STC; through the experience of the Agricultural Prices Commission whose support prices for most commodities other than foodgrains are seldom higher than the minimum level that open market prices ever hit.

What most of our past state effort at market regulation failed to recognise is the simple fact that the intervening agency must alter the expectations of millions of independent private traders; in order to do this, the intervening agency needs to have moderate resources, skill and credibility amongst the traders. What state often attempts to do using its coercive power and resources, some institutions of economic development achieve with far less effort. We illustrate this with two recent examples.

In 1979, when the government of India asked NDDI to work out a programme on co-operative modernisation of the Indian oilseeds sector, the Dairy Board realised that the major obstacle in this task is the highly unstable, volatile and speculative character of edible oil market. At the end of a detailed exercise the NDDI concluded in 1979 that any agency which controls 15 per cent of the total edible oil supplies in the country can, through limited but skilfully executed open market operations contain the market prices of edible oils within carefully computed, pre-specified upper and lower limits.

Ten years later, the government of India asked the NDDI to launch their Market Intervention Operation with limited commitment of financial and commodity support. The NDDI initiated two steps: they launched 'Dhara', a national brand of consumer-packed oil which, in its maiden year,

became a runaway hit and one of India's greatest consumer marketing successes in modern times. The second, NDDI launched open market operations involving the newly created oilseeds growers' co-operatives in the procurement and processing operations. During 1989-90, the price band given by the government to the NDDI was Rs 20,000-28,000/mt; not once did the market price in Bombay move out of the price band.

There were several lessons. First, while the government provided much moral support, it went back on most promises of financial and commodity support. Second, contrary to its earlier analysis, the NDDI concluded that it needed not 15 per cent, but less than 5 per cent of the market share to regulate the prices in most years. Third, for launching Dhara as well as for its open market operations, the NDDI added less than 10 more men to its staff. Finally, the government could hardly have done what the NDDI did, and with the flair it did it; for no civil servant would have the heart to take the risks it entailed. At the same time, the NDDI would not have been able to do what it did if it had not commanded complete support of government of India.

Similar is the case of the National Egg Co-ordination Committee (NECC) established in 1982 as a loose organisation of poultry producers. The NECC's charter is to provide market information and to undertake price support to poultry producers of India. With a staff of less than 60 professionals, the NECC has done this without having to undertake any open market operations. All it does is to collect daily market prices through its three-tier structure from various markets and stipulates every day a support price for each of its 18 zones; since 1982, rarely has an egg got sold by a poultry producer below the NECC declared price. In 1990, the NECC declared its own 'home-made' MIO to maintain the egg price above Rs 40/100; to be sure, the egg price behaved during the entire year. The impact of this extremely 'cost effective' MIO—on the behaviour of egg prices and on national egg production—is carefully documented in NECC's annual reports. Once again, it is certain that the state would never have been able to achieve what the NECC did as quickly and cost effectively; at the same time, the NECC would not have performed as well as it has done but for the intensive and high quality state support and patronage.

Indian development thinking has traditionally been suspicious of markets; it has painted the private trader as the villain of the society. Usury practised by money-lenders and the role of grain traders in accentuating famines in the pre-independence era contributed to this attitude. There are, however, two aspects of informal commodity and factor markets which need to be noted: first,

they have proved highly resilient institutions; 70 years of regulatory efforts and 40 years of effort directed at replacing them through organised financial institutions have not been able to curb informal capital markets in India; if anything, in absolute terms their business has expanded; in relative terms too, institutional financial agencies have come nowhere near replacing them. The second important aspect is their 'on demand' nature: while in abnormal times they tend to exploit, in normal times, informal markets provide services that organised sector is seldom able to match. At the end of a micro-study in West Bengal, Samar Datta concluded that informal and organised credit institutions were more complementary to each other than competitive in nature. In any case, for many of our isolated rural communities, "the suffering caused by the exploitation by a market is nothing compared to not being exploited at all". A recent exploration of the increasing popularity of formal and informal chit fund organisations in Kerala, Tamil Nadu and other states as savings and loan associations too suggests that these derive their energy and drive from their ability to constantly adapt their character to fit the needs of the people. While the state views these as evil, people have taken to them increasingly. In the 80s, apparently, 20 per cent of Kerala's household savings went into chit funds and these provide twice the amount of credit organised sector provided in that state. Predictably, the various chit funds acts passed by state governments have, instead of regulating their working, in effect forced them out of the purview of law since many chit funds have begun to operate in the informal sector; and the rest operate in southern states from their branch offices in Jammu where no chit fund law exists [Shah and Johnson 1991].

Another example of a market as a growth stimulator is available in ground water irrigation sector where private local initiative and indigenous institutions have played a far more important role—in terms of scale as well as quality—than official programmes. Several social researchers (including at IRMA) have over the last few years studied the powerful role that fragmented, village-level ground water markets have played in forging irrigation-based local agricultural economies in the whole of western India. The emergence of the water market has enabled numerous small holders who would otherwise continue with rainfed farming to switch to irrigated farming with purchased water; likewise, the potential opportunity to sell water to neighbours ensures a potential investor in a tube-well of high levels of capacity utilisation; this assurance is very important in several areas of the country where tube-wells can cost several lakhs. The evidence already available suggests that since well owners have a stake in

building long-term clientele, the irrigation service provided by private well owners is of a very high quality, and in any case, uniformly better than that of either state tube-wells or of canal systems.

There are several complex dimensions of this important indigenous institution; however, for our purposes here, it is important to note that over 13 million private well owners in India have created larger and superior quality irrigation potential than all of the large state-sponsored canal and public tube-well irrigation programmes together; in doing so they have mobilised some Rs 25-33 thousand crore of capital; Shah (1991) recently estimated that India's private well owners may well be serving an irrigated area as large as around 40 million ha (of which nearly 15 mha may be water buyers' land) compared to the combined irrigated area of all major irrigation projects placed at 26 mha. The most important feature of this is that the state has played no direct role in forging these water markets; indeed, the state has still not even recognised their existence.

There are other examples from other fields, far too numerous to describe here. They all illustrate the powerful role law, markets and organisations can play in producing developmental impulses by facilitating, organising, by fostering technical change, by removing bottlenecks. Research institutions are known to have changed the local economies. The role played by Punjab Agricultural University in ushering in the green revolution in the Punjab is well-documented; less well-documented is the contribution of Karnataka Agricultural University in promoting outstanding yield growth in the predominantly drought prone agriculture of that state; of the Deen Dayal Research Institute in eastern Uttar Pradesh which sank 30,000 bamboo tube-wells in two districts in just one year. In Gujarat "remarkable growth in fertiliser consumption in rain-fed areas (during the 1970s) was due to ...certain strengths in the fertiliser distribution system and pressure from the fertiliser supply side" exerted by the Gujarat State Fertiliser Corporation, a joint sector company [Desai 1986]. The exemplary work of Campeco, a small co-operative of cocoa growers engaged in an unequal battle with Cadbury's, a multinational monopsony in safeguarding the economies of its 16,000 members was recently documented in the *Economic and Political Weekly*.

One feature common to all these examples has been this: either they have been unnoticed by the state and therefore left alone; or they have invested in building a very beneficial relationship with the state in which the state has provided support and resources but has been discrete in exercising control. As an economic institution, water markets fall in the first category; private tube-well in-

vestments benefited from state supported credit programmes; water markets have been sustained by state investments in power supply and distribution as also of power pricing policies followed by state electricity boards; however, private pumps are too numerous and water markets too slippery to be easy prey to state control. There are many researchers who believe that the rise of the water markets as a potent institution—which widely diffuse access to ground water to resource poor, enhances manifold the overall productivity of private sector investment in minor irrigation and erects efficient and highly equitable on-demand irrigation demand system—was possible primarily because the state failed to take cognisance of their existence. The apprehension is that if the state had taken cognisance of the total extent of the 'business' that private water-sellers are doing, in a feat of misconstrued chauvinism, it would have clamped down numerous restrictions on curbing this business without discovering the massive growth and equity stimuli they produce in much the same way as it has done all these years on the informal credit markets and more recently in case of the chit fund companies. True, some of these companies have been unscrupulous and exploitative; but instead of regulating these, what the state has done is to try to demolish the institution itself.

Sugar co-operatives in Gujarat as well as Maharashtra used state support—financial as well as political—in emerging; but ensured that the state did not replace members' elected boards as 'monitor'; many sugar co-ops insisted that they are allowed to repay equity contributions made by the state so that the spectre of state's direct control is eliminated. In developing dairy co-operatives all states were able to use state support in one form or another. But only Gujarat was able to retain the 'monitorship' within the co-operatives; in most other states, the state took over as monitor, as a result, although milk collection and marketing by the government controlled co-operatives grew, outside Gujarat dairy co-operatives could not develop the same character and dynamism of Gujarat's early co-operatives. In case of the NIDDI's M. IO, enlightened state support was critical in whatever success the programme achieved; in case of NECC, state had little direct role to play, but yet, the NECC's many activities enjoy enlightened state support. Significantly, both the NIDDI and the NECC are extraordinarily skilful organisations in dealing with the state apparatus.

V

'Awkward' versus 'Subtle' State

After several years of modelling and econometric research, the World Bank recently told us what is wrong with Indian development planning. They said our in-

vestment priorities are distorted; and our pricing policies mess up the incentive structure; that we give too much subsidies; and that the rate of capital accumulation in agriculture is tumbling; that we are not completing our irrigation projects on time; and our agricultural research system is not coming up with new technologies fast enough; that we need to spend less on anti-poverty programmes and more on irrigation; and that if we correct all these and invest more in irrigation and agricultural research, our agricultural and rural economy will soon be OK. Right?

Wrong. Even if we do all that the World Bank is saying, it is extremely unlikely that we will be OK. Maybe all that the World Bank is saying is wrong with us is true. But there is far more to what is wrong with us than just that. Therefore, it is unlikely that correcting these wrongs is going to put us on the right path; it is unlikely that more of the same—more money in irrigation, more in research, more of subsidy reduction—is by itself going to help. Because what is critically wrong with us has something to do with the chemistry between the state and our institutions of economic development.

This is not to suggest that resource generation and its allocation to sectors of national priority have no role; these are certainly necessary; but they are not sufficient. For investment to generate desired output growth, it is important that accompanying social, economic and institutional processes of change take place. This is true not only of a complex organism like a nation's economic system; but also of economic micro-organisms such as an individual farmer or a business organisation. When a farmer invests in a new technology, he himself, and often his whole family, have to change before the full benefits of new investment accrue. When business organisations generate and invest resources for growth good business leaders also carefully devise organisational structures and processes which support and foster growth. At all levels of economic hierarchy and in all forms of economic organisations, investment is certainly crucial to growth; but it is not the sole determinant of growth. One is not saying that the Indian Planning Commission is so naive as to believe that desired growth rate can be obtained by dividing the projected savings rate by the ICOR; but then we seldom see a plan document (or, for that matter, a World Bank document) which says much else.

Our development planning must recognise that people find their own resources when they come across attractive opportunities and dependable institutions; that engines of economic development cannot be created by merely allocating more 'plan funds'; that institutions can be fountainheads of modernisation and growth impulses; and

that subsidy and investment cannot do the institution's job. We need to recognise that without any public sector investment, powerful developmental impulses can get generated by the reform of a stultifying law; that, unobtrusively, a market can open up new opportunity sets and harness private capital; that a co-operative or an NGO or even a research institution can revolutionise a local economy. Our development planning needs to reconsider its position that all development springs from its urn of plan funds; and adopt a more pluralistic, institutional approach to development. If all these are to happen, the Indian state has to make a fresh beginning.

A major aspect of Indian plans has been the multiplicity of goals they have pursued; this is as it should be, for no society can engage in unfettered pursuit of only one goal, be it growth, equity, self-sufficiency, environmental sustainability or giving women their due in society. However, multiple and often conflicting goals are the principal source of poor implementation, low productivities and lack of viability in state initiatives. If an initiative is not justifiable on productivity/viability grounds, it is always possible to find other plan objectives—rural employment, self-sufficiency, equity, environmental benefits, improved conditions of women, or finally, the interests of the people employed by the project—that it can be shown to have contributed to. In economic analyses of projects, since one can use wage rates anywhere between 0 and the government minimum wage rates, it is often easy to make an unviable project/policy appear viable and vice versa; the national planning objectives do not offer a single talisman which can integrate the actions of the state with the actions of all the institutions of development. We often come across the innuendo that our plans are alright; the problem is with their implementation. As the first step to improving plan implementation, what we need is this single talisman. It appears that this can be best done if the state adopts as the superordinate goal of its policy continual and sustained enhancement in the wealth producing capacity of the agricultural and rural sector. This would include more than just raising incomes or even livelihoods; it would mean raising productivity and quality of the output of products and services; changing product mix to match our distinctive strengths with the needs of domestic and international consumer; constantly improving the managerial and technical competencies and skills of our rural workforce; it would mean creating new supportive institutions and an environment within which our agricultural and rural production systems can establish competitiveness not only within the economy but also on a global scale; it would mean continuing 'creative self-

destruction'—i.e., regular and systematic dismantling of structures, technologies, policies and organisations which have outlived their purpose; finally, it would include uniform and sustained increases in the efficiency and productivity of public and private sector investments in asset creation.

Other important goals of public policy—such as equity, employment, environmental sustainability, self-sufficiency—should certainly be there; and public sector resources should be allocated to these in accordance with the priorities the government may wish to assign to these goals. However, the approach here too must be one that constantly stresses productivity, efficiency and long-term viability. Moreover, in assessing tradeoffs, the superordinate goal must never be sacrificed. Finally, the pursuit of this superordinate goal cannot end with plan implementation. It would require economy-wide changes that must fundamentally alter the way we live, think and work. Above all, it must alter the nature of equation between the state and the nation's institutions of development.

INSTITUTIONS OF DEVELOPMENT

This last would essentially involve the state acting in a cohesive and understanding partnership with the nation's three principal institutions of development: the legal framework, the markets and organisations. The primary condition to establishing such synergistic partnership is to cleanse our national mindset of all our chauvinistic beliefs and attitudes which colour the way we think about institutions and development actors, and make a realistic assessment of who can contribute what in the task of building India's agricultural-rural economy. We must take a fresh look at our laws and the way they assign property rights and modify them such that they become consistent with the superordinate goal. On high priority should be the reform of our antiquated co-operative act which is long overdue. Much work has already been done on drafting a new bill by the Planning Commission; this must be passed expeditiously, especially because farmer co-operatives, with enlightened, high quality state support can play major role in the new strategy. At the economy wide level, it is also important to institute a legal reform which contains the damage organised labour and trade unions can do to nation's institutions of development without abrogating their constitutional rights. This is important not only because the present hegemony of the organised labour is unfair in itself to the unemployed and unorganised but because it has already begun to have two potentially devastating effects: it is beginning to have telling effect on the productivity of organised labour as well as large organisations; second, it is systematically

driving the organised sector towards labour-saving technologies and to casualisation of labour. This last is evident in the stagnant employment growth in the private organised sector throughout the 1980s.

There is also a dire need to reconsider several of our stereotypes about markets. Forward markets in farm commodities, banned in the 1980s as a vestige of capitalism, have a great potential to contribute to the modernisation of processing and marketing. Our inability to devise effective regulatory devices has in the past led to some periodic aberrations in their functioning; but by banning them, we have thrown the baby with the bath water. There is a need to resurrect and legalise this important economic institution. In any case, by legal ban, such markets seldom get abolished; they continue to function but fail to perform their useful role. A more practical method of dealing with them would be to strengthen the regulatory and disciplinary authority of the exchanges which operate these markets. These suggestions apply to informal credit markets as well; much research has shown that institutional credit agencies cannot replace these; it appears that it is neither necessary to do so. What is necessary is to bring them within the RBI's overall regulatory framework and to create countervailing powers—which, to some extent, has already been done through the spread of RRBs, commercial banks, and credit co-operatives—which can contain their exploitative tendencies.

Knee-jerk reactions based on ideological or populist considerations do incalculable harm by destroying institutions of economic development. Nations which have witnessed impressive agricultural and overall economic growth have enjoyed long period of stability not so much in their political leadership but in state's outlook towards institutions of development; indeed so important are these considered to be that broad national consensus has been built around the relationship of state with these institutions. It is high time we also began working towards a new national consensus on these issues. However, the progress on this front will for sure be slow if our political leaders fail to break out of their old ideological bastions and take a fresh look at new realities. In particular, in a new national code of conduct, political parties of various hues need to consider the long-term damage caused by measures like loan waivers—even by private money-lenders, as was done by Indira Gandhi—to the credibility of institutions.

Rather than assuming control over operations, which often results in bureaucratisation, the state must hold strategic organisations responsible for performance budgeting and audit as a determinant of the extent of state support the organisation would qualify for. Zero-base budgeting for financial planning

needs to be introduced in the government sector with urgency. This is most urgently needed in public sector organisations like the FCI, STC, CCI, NABARD, NIDDI and various state level organisations; in anti-poverty programmes like the IRDP, JRY, NREP, TRYSEM; in agricultural research establishments, in government departments dealing with major and minor irrigation, animal husbandry and dairying, forestry; in the agricultural extension system. In all these institutions, their superordinate goals need to be redefined or reconfirmed; and the performance budgeting and audit needs to be undertaken against these goals. This has to be a mature and constructive process unless it is to end up in a target-chasing exercise; for such mature and constructive audit to be possible, the state and its machine needs to change from the political-bureaucratic to a development ethos. This in turn would mean that the state and its apparatus would have to improve its performance in five departments: as monitor, as manager, as organisation builder, as designer of interventions, as a micro-monitor.

Playing 'monitor' is serious business; the primary function of the monitor in any organisation/human system is to supply governance. A 'monitor' can produce requisite supply of governance if he has the skill and the competence to understand and guide the functioning of the system and if he is concerned enough to ensure that the system works towards its mandate. The state or its deputy playing the monitor usually has neither; and therefore, his performance as monitor is, as a rule, indifferent. The reasons why the state assumes monitorship in organisations/systems are: (a) the state is the creator of the organisation (as in public sector units) and supplier of equity capital; (b) there is perceived need to exercise tight control; (c) no one else, *prima facie*, appears better qualified to play monitor; and (d) to protect interests of the society at large. Even where the state does not directly play monitor, as in universities, it retains the power to appoint and fire top manager; over years, many governments have used this power for narrow political ends; this has been among the most important reasons for the erosion of institutions.

When the state plays monitor, two things happen: first, the awesome power of the state makes the top management authoritarian; that is, it becomes excessively submissive to state machinery and excessively oppressive to the rest of the organisation and its client system. Second, since the locus of control is shifted from within the organisation to a ministry/department, the top management easily develops despondency: it is neither able to generate drive and energy for positive action; nor is it able to easily assume responsibility for consequences. Rapid transfers of officers from

management as well as monitorship breeds myopic view, and further intensifies directionlessness and lack of drive.

Since this is a systemic feature of state monitorship, a plausible solution is for the state to be extremely careful in assuming this role; and to devise procedures to create self-governing systems. Co-operatives are an example of self-governing systems; in PSUs and educational/research establishments, self-governance and autonomy must be strongly encouraged; for ensuring that these function as engines of development, the state may link its support to the contribution made by these institutions in larger developmental processes. However, much as the state succeeds in curtailing its monitorship, it will still have to play monitor in some organisations; for this reason, it is important that the state improves the competence of its apparatus to function as monitor.

In most public systems, dramatic improvements in performance can be achieved, without any significant resource commitments, by simply the top managers desiring performance improvements and defining clearly what they want; further improvement is possible by their desiring it strongly enough. This is because performance improvement is the last concern of everyone engaged in a moribund public system; by the time a new man takes over as the top manager, he has but a few months before retirement; others down below know that whether they rise in the hierarchy or not will have little to do with their performance. This is a familiar story; but no analysis of state and institutions of development can be complete without repeating it; and doubtless, no significant development can occur, even with thousands of crores of investments, unless we crack this malaise.

Again, a practical way out is for the state to avoid playing manager unless it is absolutely important for it to do so; there is no reason why a canal system has to be managed by the state; neither is there one for the state to manage public tube-well programmes. There is no reason why the state should play vice-chancellor of a university or a social forestry manager on private or village lands; or for that matter as a rural development manager. Particularly so, if past evidence suggests that the state has not particularly distinguished itself in this role.

Where it does have to play that role, it can perform better if: (1) the state deputy to management is professionally equipped to play manager; (2) he is given sufficiently long tenure; (3) he is made accountable for performance to principal stakeholders of the organisation.

In the new national ambience that we are trying to describe, the state will continue to be a major shaper of and intervener in the processes of economic development. How-

ever, the state will play this role with increasing effectiveness if it becomes a 'learning state'. By 'learning state', we mean a state which continually and critically evaluates the consequences of its action, builds an ongoing corpus of such institutionalised learning and incorporates this learning into its design of future interventions. The performance of the Indian state is pathetic as a designer of interventions; more so as a learner from past follies. After 40 years of experience, our interventions continue to be grossly mistargeted; and the state is usually way off the mark in predicting the impacts of its new interventions. In many cases, this is not easy to do; but we often fail to incorporate simplest of the political economy lessons in our design of interventions. Rajagopalan's analysis of the complex dynamics of the cobweb of subsidies and controls in the use of alcohol and molasses is a classic example not only of inept intervention design but also of high level political-economic tomfoolery. The recent muddle about fertiliser subsidy is a case in point; anyone could have predicted what would happen to the restoration of subsidy to small farmers; if it was done unknowingly, it reflects naivete; but if it was done knowingly, it is callous.

The Indian state needs to master the fine art of managing subsidies and controls; of outsmarting—or, at least, steering clear of—the army of rent seekers waiting in the wings that our licence-control raj has bred. It is nobody's case that these should be abolished forthwith; but it is certainly important for good statecraft that those subsidies and controls which are there in fact continue to serve the purposes for which they were introduced in the first place. High level 'rent-seeking' is of course, the deplorable game played by successive state governments that has been increasingly eating into the vitals of our society; containing or stopping this would be an ideal that the state as an institution of national governance must steadfastly pursue; however, what can be done readily is to take explicit cognisance of such games, and redesign and retarget interventions.

The key to correcting the chemistry between the state and the institutions of economic development lies in the state switching to the institution-building role. Rather than direct action, a 'subtle' state can create and use strategic organisations as instruments of change. A strategic organisation is one which has "the potential to produce large positive change and development in its respective domain or sector" [Khandwala 1988:27]. Khandwala further classifies three types of strategic organisations in rural developments: apex strategic organisations—such as the Planning Commission, NABARD, NDDB, etc.; spearhead organisations—such as the agricultural research organisations,

management institutes, ITIs, etc., which can fundamentally change the way we think and do things; and change agent-type strategic organisations—such as PRADAN, Tilonia, Mayrada, and other such development NGOs.

The state can and must play a major role in building these and similar institutions. There are numerous ways the state can play this role effectively; these do not include back seat driving and remote control ruling from Delhi. Conditions of birth and formative years are crucial in determining the nature of a strategic organisation as an adult. The Indian state's record as a midwife and nurse has so far been indifferent; "if individuals with bureaucratic or political orientation are made in charge of the fledgeling strategic organisation, the chances are that the organisation will get 'set' as a bureaucracy or as a 'spoils system'...the resource dependence of the strategic organisation on the government takes its toll and (it) degenerates into a sick organisation, heavily bureaucratised and politicised..." [Khandwala 1988:43].

Building strategic organisations is a complex game; a good deal of it generally involves letting the young organisation have the cake and eat it too—which demands great magnanimity and subtlety; but in broad terms, state needs to consider two positions: first, the state's consultative role should focus on careful structuring of the consonance between the goals of each of the strategic organisations and the superordinate goal of the state; second, when state becomes a resource provider to these organisations, it must match high 'performance demands' by high 'performance support'. Performance linkage is the key; the interaction between the state and the strategic organisation can become nationally and organisationally productive only if control as well as support are linked by a shared understanding of performance needs. As Khandwala points out, this relationship must be nurturant in times of crises and demanding at times of peace (1988:38).

Finally, if India decides to gun for a 5-7 per cent annual rate of growth in its agriculture-rural sector output, we need to look at who is going to buy that output; for if relative prices fall with rising output, we will end up in a zero sum (or even negative sum, if recent evidence is anything to go by) game [see, e.g. Nadkarni 1988]. In steady-state equilibrium, growing rural incomes and food demand itself will provide expanded food markets; forward linkages with agro-industries will need to be structured to absorb the changing product mix; but ultimately, a rapidly growing Indian agriculture will have to turn global to support sustained output and productivity growth. Regrettably, Indian planners have never seriously thought through this option; as a

result, rather than capturing new international markets, we have lost out even on those markets which were, for long, our traditional forte. This is a failure that needs most urgent correction; and there is no 'smart' way of doing this; it needs sustained and painful globalisation of Indian agricultural system.

Michael Porter, a well known student of strategy, recently explored in a popular article why firms that dominate world markets in specific industries happen to come from the same country. He considered several alternative hypotheses: balance of payments policies of national governments; cheap and abundant labour, bountiful natural resources, management practices in different countries, and finally, well-targeted national government policies calculated to launch certain industries as export leaders [Porter 1991: 29-34]. Porter found that none of these explains the competitive success of nations in different industries; he argued instead that "nations succeed in industries if their national circumstances provide an environment that supports improvement and innovation...where local circumstances provide an impetus for firms to pursue such strategies (of innovation and improvement) early and aggressively...(where) their home-base advantages are valuable in other nations and where their innovations and improvements foreshadow international needs" (p.31). These circumstances are a product of skills and competences, cultural ethos, institutional structure and related variables operating as a mutually reinforcing system that Porter euphemistically calls the 'national diamond'. "Policies implemented without consideration of how they influence the entire system of determinants (or, the 'national diamond') are as likely to undermine the national advantage as enhance it" [ibid: 32].

The cutting and polishing of the 'national diamond' is the primary task of the state as the macro-monitor or the monitor of the whole economy. What Porter has identified is true as much of the nation as it is of any organisation; the organisational governance structures have the primary responsibility of shaping the 'organisational diamond'; and the national governance structure, of the 'national diamond'. Like successful organisational governance structures, the state as the economy's governance structure too needs to function as a strategic planner for the nation, orchestrating the nation's long-term economic strategies by constantly analysing our national strengths and weaknesses in the light of opportunities and threats held out by the global economic environment.

According to Porter, competitive advantage grows fundamentally out of improvement, innovation and change; and involves the entire value system of the host society;

it is also sustained through relentless improvement and a global approach to strategy. The national diamond that the Indian state has created in its first 43 years of governance promotes none of these at any level: at the farmer level, at the organisational level or at the national level. Our national diamond encourages farmers, workers, firms and markets to look for surpluses not by productivity improvements but by collective bargaining; through lobbying than through market place; by seeking protection from global competition and from domestic rivals than by quality and efficiency gains; through concealing mediocrity rather than through open pursuit of excellence. All these fundamental changes are not easy to accomplish; but if we want enduring solutions to the problems of our agricultural and rural sector, we have no alternative. We can waste a few more years struggling with the political economies populist policies; but time will soon run out.

In achieving all these, the Indian state has to be the prime mover. There is a groundswell of recent opinion that what we need is less state. This is wrong. In our view, it is neither possible nor desirable. It is not possible for a modern welfare state to go back to what Rousseau called the 'state of nature'; moreover, in the most ardent of today's free market economies too, the state plays pervasive role in economic affairs. What we need is not less state, but better state. What we need is to roll back the 'awkward state': the 'soft' state which legislates far more than it can enforce, the stifler of initiative and creativity, the 'usurper' which takes upon itself what others can do better. Instead, we need a more comprehensive but 'subtle state': a 'hard' state which legislates judiciously but enforces vigorously, a state which skillfully deploys the power of suggestion, which governs through policies rather than direct and shoddy action; which is concerned more with enabling rather than regulating. What we need is a 'paradigm shift'; in our entire outlook about the equation between the state and society. Only by fundamentally altering this equation can India continually enhance its wealth producing capacity and find enduring solutions to the problems of her people.

Notes

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1 We use the term 'paradigm shift' in a loose sense, and not in the 'history of science' sense. The liberty taken is regretted, but so commonly

is the phrase misused, that there is no better way to stress a change in framework of thought except by calling it 'paradigm shift'.

- 2 This is in keeping with the well known Kuznets studies. What is disturbingly not in keeping with the international experience is the extremely limited transfer of labour from primary to secondary and tertiary sectors. In most economies, the process of labour transfer invariably accompanied industrialisation and material progress; in the Indian case this has not happened to the same extent (see Kuznets 1966).
- 3 The term 'state' has been used to imply several things. Throughout this paper, we have meant by 'state', the institution of national governance. While the state is an 'institution', government is an organisation.
- 4 This usage of the term 'monitor' is recent and was introduced in the economic theory by transaction cost economists (see Furubota and Pejovich 1981).
- 5 See, e.g. Taylor (1990); Jensen (1989); Johnson (1990); Rappaport (1990); Drucker (1991).
- 6 One of the central theses of Olsen's work was that all those efforts at collective action which result in the production of a public good cannot work except through coercive elicitation of member participation and contribution (see Olsen 1967).
- 7 In many states, electricity boards do specify as an explicit clause in their contract for a new power connection for irrigation that the well owner will not use his well to supply water to his neighbour. This sounds incredible particularly when there are numerous small holders who can hardly afford their own well and who can derive enormous benefit from an opportunity to buy irrigation from a neighbouring well owner.

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Limits of Credit, Not Credit Limits

V M Dandekar

The weaknesses of rural credit have stemmed from the deficiencies of the structure of agricultural production itself. On this weak base has been raised an imposing superstructure of credit institutions which one committee after another has kept reshuffling and adding to. What has to be considered is how to reorganise the structure of agricultural production rather than the structure of rural credit.

THE post-independence story of credit for rural development begins with the Report of the Committee of Direction to direct an all-India Rural Credit Survey (briefly RCS Committee) set up by the Reserve Bank of India (RBI) in 1954. Its report lies at the bottom of the policy, progress, and problems in this field over the past 40 years. The survey showed that, in 1951-52, the private credit agencies taken together (excluding commercial banks) supplied 93 per cent of the total amount borrowed by cultivators; that, of the total borrowing by cultivators, roughly 50 per cent was for family expenditure, 28 per cent for capital expenditure on farm, and 10 per cent for current farm expenditure; that relatively larger proportions of the borrowings of big and large cultivators were from institutional agencies and that the dependence of the medium and small cultivators on private agencies was much greater in that order. Regarding the long-term credit, the Planning Commission had pointed out that "a major part of the advances made hitherto by the Land Mortgage Banks were for repayment of old debts" [Planning Commission 1953, pp 234-49].

Undaunted by these facts and without seeing the underlying reasons, the committee expected that the situation could be corrected by what they called an integrated scheme of reorganisation of the system of rural credit founded on three fundamental principles, viz, (a) full co-ordination between credit and other economic activities, (b) state partnership at different levels and covering co-operative credit, processing, storage, warehousing, and marketing, as also commercial banking as represented by the important sector of state associated banks, and (c) administration through fully trained and efficient personnel, responsive to the needs of the rural people. The main lines of reorganisation and development recommended were as follows:

(a) At the primary base, establishing larger-sized primary credit societies supplying not only agricultural credit but eventually also rural industrial credit and also meeting, to a limited extent, the consumption needs of agricultural labourers, handicraftsmen, etc, besides those of the member cultivators. At the apex level, financial, administrative and technical strengthening of state co-operative banks, and at the

district level by either establishing branches of state co-operative banks or expansion and consolidation of central banks; co-ordination with land mortgage banks; the organisation of new central and primary land mortgage banks. (b) Progressive organisation, on a co-operative basis, of marketing and processing with the needed financial administrative and technical assistance from the state, and the development of storage and warehousing through state partnered organisations. (c) Progressive organisation, on a co-operative basis, of as large a sector of economic activity as possible, e.g, farming, irrigation, transport, milk supply, dairying, livestock-breeding, cottage industries, etc, with financial, administrative, and technical assistance from the state. (d) Establishing a State Bank of India, through the amalgamation of the Imperial Bank and certain state-associated banks with major state participation in the new and enlarged institution. (e) Organisation by a Central Committee for Co-operative Training all-India, regional and state-wise, training for personnel of both co-operative departments and co-operative institutions [Reserve Bank of India 1954, Vol II, pp 533-34].

In the structure of co-operative credit prescribed by the committee, there was to be a state co-operative bank, a central land mortgage bank, and a state co-operative marketing society at the apex in each state. At the district level, there was to be preferably a district central co-operative bank or a branch of a state co-operative bank, a primary land mortgage bank, and a district marketing society. At the primary level there were to be large-sized primary agricultural credit societies primary land mortgage banks, grain banks, and primary marketing societies. The proposed State Bank of India would help in financing of individual co-operative marketing and processing societies.

UTOPIA OF CO-OPERATIVE COMMONWEALTH

This sounds very much like Proudhon (1809-1865), the French socialist who, a 100 years ago, proposed a system, called 'mutualism', of equitable exchange between self-governing producers, organised individually or in association and financed

by free credit granted by the 'people's bank'. The units of the radically decentralised pluralistic social order were to be linked at all levels by applying 'the federal principle'. But there is an important difference: Proudhon was anti-statist even to the extent of being an anarchist while the committee of direction of the rural credit survey were essentially statist. The visionary now was D R Gadgil who later, in his lectures titled 'Towards a Co-operative Commonwealth' [Professor Brij Narain Memorial Lectures, University of Punjab 1960], argued at length for government sponsored co-operation. In his statism, he was fully supported by the other two members of the committee of direction, A D Gorwala and B Venkatappiah, both able members of the erstwhile Indian Civil Service.

Soon after the publication of the report of the committee of direction, Malcolm Darling [Darling 1955], referring to the vast and rapid expansion of co-operative credit advocated by the committee, said: "The committee have certainly made out a strong case, on paper at least, for a large increase in the flow of credit, but I cannot forget Professor Carver's dictum that farmers who do not keep accurate accounts (and how many do this in India?) and who have not a keen sense of values should avoid use of credit like the plague". But that was written before the age of planning, and the trouble is that one plan necessitates another. Hence, in large measure, this particular plan." "What guarantee" he asked "is there that it (credit) will go only to the creditworthy or that the cultivator with more money to spend will be more punctual in repayment, more provident and less feckless? The camel driver, says an Arab proverb, has his plans and the camel has his. So has it often been between government and peasant in the past, and it may well be so again" [International Co-operative Alliance Review, June 1955].

Malcolm Darling was also a member of the Indian Civil Service who joined the service in 1904 and, as a senior civil servant, served mostly in Punjab. Relevant to our subject, we may note that he was the registrar, co-operative societies, Punjab 1927 and chairman, Punjab Banking Enquiry Committee, 1930. He had also the academic distinction of being vice-chancellor, University of Punjab 1931 and 1937-

38, president, Indian Economic Association, 1928 and president, Indian Society of Agricultural Economics, 1940. He was the author of (i) *Some Aspects of Co-operation in Germany and Italy*, 1922; (ii) *The Punjab Peasant in Prosperity and Debt*, 1925; (iii) *Rusticus Loquitor or the Old Light and the New in the Punjab Village*, 1930; and (iv) *Wisdom and Waste in the Punjab Village*, 1934.

Referring to the state participation Darling raised the fundamental questions: "How will self-help and mutual help fare with so much done for the members by government? ... Are they not likely to wilt, or even be crushed under the weight of the proposed state structure. It is intended that government should gradually withdraw from partnership as societies become more competent to manage their own affairs; but, as India knows, it is never easy to persuade those in authority that the time has come for withdrawal, still less easy to get employees to train others to take their place" [Darling 1955].

But, India had already accepted the centrally planned development strategy wherein, not just state participation but, the state playing a major role was a key element. Naturally, the RBI and the GOI accepted the recommendations of the RCS Committee. The State Bank of India was established by an act of parliament in 1955. The Reserve Bank of India Act was amended in 1955 to provide for the establishment of two funds, namely, the National Agricultural (Long-term Operations) Fund and the National Agricultural Credit (Stabilisation) Fund. In February 1956, the National Agricultural (Long-term Operations) Fund was created to provide loans to the states to enable them to subscribe to the share capital of co-operative credit institutions. The RBI could also give long-term accommodation from this fund to Central Land Mortgage Banks provided that such debentures were fully guaranteed by the state governments as to the repayment of principal and payment of interest. Medium-term loans could also be made out of the Long-term Operations Fund. Another fund, known as the National Co-operative Development Fund was to be established by the GOI, from which states would be able to borrow for subscribing to the share capital of non-credit co-operative institutions.

In the Second Five-Year Plan, proposals regarding rural credit generally followed the recommendations of the RCS Committee. Darling was invited by GOI "to review recent developments in the field of co-operation with reference to programmes in the Second Five-Year Plan..." We quote below the first three paragraphs of the 'Introduction' to his report submitted on June 17, 1957.

The Second Five-Year Plan involves the most spectacular effort ever contemplated in the field of agricultural co-operation. ... In short, co-operation is to be 'the vital principle of all rural development'.

I need hardly say that I am in entire sympathy with this principle. It has long been my belief that co-operation is the only satisfactory means of securing the peasant's well-being in this complicated world. But if this faith is to be justified, nothing must be done to endanger the movement, particularly at the primary level, where it has its real being. Too much is at stake and too many millions affected. Accordingly, in considering the programme... and its relation to the movement as it is, it was necessary to consider whether so much could be done in so short a time without endangering it. The field I was specially concerned with was agricultural credit and ... I came to the conclusion that the pace proposed was too fast for sound development even in the four states—Bombay, Andhra, Madras and the Punjab—where the movement is strongest; doubly so in the others I visited or was able to consider.

"Against this it is urged that India must develop at the pace of totalitarian countries, however, with this difference that the stimulus must come from below, and on a co-operative basis; otherwise democracy will not survive. The difference is all important, for all democratic processes involve a slower pace than authoritarian. In the Draft Outline of the Plan it is rightly said that 'if strong primary units exist at the base, effective organisations can also be built. Yet it is proposed to add an imposing storey—for co-operative manufacturing, marketing and processing—to a structure... nowhere very strong and in some states deplorably weak, and to do this without any systematic strengthening of its foundations. This is sooner or later to risk partial, perhaps even in some areas, total collapse. And if that happens, experience shows only too clearly that rebuilding is extremely difficult—also very costly. Bihar and Bengal are conspicuous examples of this; indeed in every state, the path of co-operation is strewn with wreckage". [Planning Commission 1957 pp 1-2].

In 1962, the RBI undertook a resurvey called the All-India Rural Debt and Investment Survey, 1961-62, to assess changes since the RCS 1951-52. It showed that, over the 10 years, borrowings from the co-operatives had increased from 3.1 to 15.5 per cent but that private moneylenders still predominated. There was little change in the purposes of borrowing and household expenditure continued to be the major purpose accounting for almost half of the total. Moreover, much progress had not occurred in the co-operative sector in some parts of the country despite the efforts made during the first two Five-Year Plan periods.

The Third Five-Year Plan (1961-66) admitted that the RBI had played a major role in the building up of the co-operative move-

ment during the first two plans through its financial supervision, arrangements for training, loans to states for participation in the share capital of co-operative banks, and advances to co-operative banks, etc, and expected the RBI to play an even larger role in the Third Plan [Planning Commission 1962, pp 201-06]. More specifically, it proposed to set up the Agricultural Refinance Corporation, later called the Agricultural Refinance and Development Corporation (ARDC). The ARDC was established in July 1963 with an authorised share capital of Rs 25 crore and a paid-up share capital of Rs 5 crore, a major portion of which (i.e., Rs 2.97 crore) was taken up by the RBI. Scheduled Commercial Banks were also made its shareholders. The corporation was set up primarily as a refinancing agency providing medium-term and long-term finance to State Co-operative Banks, Central Land Development Banks, and Scheduled Commercial Banks for financing reclamation and preparation of land, soil conservation, mechanised farming and development of animal husbandry, dairy farming, pisciculture, poultry-farming, etc.

RURAL CREDIT REVIEW COMMITTEE

The All-India Rural Credit Review Committee appointed by the RBI in July 1966, in its report, submitted in 1969, that is, 15 years after the report of RCS Committee in 1954, admitted that the Integrated Scheme of Rural Credit envisaged by the RCS Committee (1954) with state participation at every level of the co-operative structure, had not been pursued or implemented vigorously in all the states; that co-operatively backward states were still lagging behind; characteristically, the remedy suggested was to set up Agricultural Credit Corporations in these states. There were weaknesses in a number of banks and societies, in other parts of the country too, of low deposits, high overdues and, general lack of business-like management. Of course, the remedy again was to take corrective action, namely, to reorganise non-viable primary credit societies into economically viable ones; rehabilitate weak central co-operative banks; take administrative and policy measures to check overdues; streamline lending policies and procedures of co-operative institutions; and let central banks and apex banks finance directly cultivators and societies in areas where they were weak or dormant.

At the bottom of it all lay the notion that non-viable primary credit societies can be converted into economically viable ones by finance from central banks and apex banks without seeing the obvious fact that thereby one weakens the central and apex banks by putting on them unbearable burden. It was easy and natural to extend the logic to small

and marginal farmers who, as farm families, were essentially non-viable. Hence, in spite of the admission of failure of the policy enunciated by the RCS Committee (1954), the All-India Rural Credit Review Committee (1966) emphasised that credit must be made more easily accessible to the small farmers. Special pilot programmes called the Small Farmers Development Agencies (SFDA) were recommended, one in each state, to identify the problems of small but potentially viable farmers and help them with inputs, services and credit, the funds for which should be provided by the GOI. The illusion continued that small farmers were potentially viable if only credit was supplied on concessional terms and new agencies were created to look after them. In the Fourth Plan (1969-74) SFDA were established in 45 selected districts to assist small holders with holdings of two hectares or less and approved 40 projects (MFAL) for the provision of supplementary occupations and other employment opportunities for sub-marginal farmers, agricultural and landless labourers.

In the meanwhile, in December 1971, the National Commission on Agriculture (NCA) submitted an interim report on the credit needs and services for small and marginal farmers and agricultural labourers. It recommended the institution of an integrated agricultural credit service for the provision of credit along with inputs and services covering not only the complete range of farm produce up to the marketing stage, but also ancillary farm occupations, such as those of rural artisans and craftsmen which provide services to the farmers; a single agency providing short-, medium- and long-term credit as also inputs and services. It would have three constituents: (i) Farmers' Service Societies (FSS)—one for each tehsil/block or any other viable unit of convenient size, with as many branches as were required in the area; (ii) a union of these societies at the district level, and functional district organisations for specific commodities; and (iii) lead bank in the district assuming leadership in the matter of organising integrated agricultural credit service [Ministry of Agriculture 1971, pp 1-2, 23-25]. It was essentially, the same old wine in a new bottle with the old empty bottle kept side by side.

To speed up the flow of institutional credit to the weaker sections of the rural community, the government felt that it was necessary to establish "new institutions on the basis of attitudinal and operational ethos entirely different from those obtaining in the public sector banks" and set up a Working Group on Rural Banks (1975). Based on its recommendations, 48 regional rural banks (RRBs) were set up by 1977. They were to grant loans and advances particularly to

small and marginal farmers and agricultural labourers and to rural artisans, small entrepreneurs and persons of small means engaged in trade and other productive activities in their areas of operation; the lending rate of the banks was not to be higher than the prevailing lending rates of co-operative societies; and the salary structure of their employees was to be determined by the government, having regard to the salary structure of the employees of the state government and local authorities of comparable level and status in the area of their operation.

In its final report submitted in January 1976, the NCA pointed out that the rise in the overdues from year to year had affected the credit-worthiness of the co-operative system and its ability to extend further credit to the farmers and that the same was true of the lending by the public sector banks. Nevertheless, it charged the commercial banks and the co-operatives that they did not make any serious attempt to understand the special credit needs of the small farmers, let alone the marginal farmers or agricultural labourers, and develop the ability to attend to their needs. The NCA felt that, for this purpose, a comprehensive ground-level organisation was needed which would facilitate the conversion of credit into inputs and services as well as the realisation of fair price for the produce, and would operate fully on commercial basis, covering all the needs of the farmers [Ministry of Agriculture and Irrigation 1976, pp 568-70]. The Farmers' Service Societies provided the desired organisation but, while regional adaptations were made, it was necessary to ensure that distortion of objectives did not take place and that the individual banks were not loaded with the heavy strain of organisational work for new FSS. One wonders how the NCA expected the FSS to meet the credit needs of the small and marginal farmers and agricultural labourers and still operate fully on commercial basis. Clearly, the policy-makers were afflicted by populism and an irrepressible desire to create new institutions.

With the advent of the new technology in agriculture, the All-India Rural Credit Review Committee (1966) expected that the demand for credit would increase, and seeing that the co-operative credit structure would not be able to meet the entire demand, recommended an active and positive role for commercial banks in the field of agricultural credit. In July 1969, the largest 14 commercial banks were nationalised and their lending policies and procedures were oriented to meet the requirements of the priority sectors of the economy. Agriculture, particularly the small farmer, was one of the priority sectors. Each district was allotted to one bank called the 'lead' bank which would survey the resources and po-

tential for banking development in that district, offer advice to small borrowers, particularly cultivators, assist other primary lending agencies, and maintain liaison with government and quasi-government agencies [Planning Commission 1970, pp 139-42 and 217-21].

Thus the predominant role played by the co-operative movement in the supply of institutional credit lasted from 1951-52 to 1968-69 and there was a shift in emphasis from co-operatives only to a multi-agency approach. This was both because of limitations of co-operative resources, which in fact were largely RBI resources, and the failure of the co-operative sector to perform. Weaknesses in the movement continued despite all the efforts to reorganise and strengthen the co-operative credit institutions.

In 1970, the RBI formulated a scheme under which, in areas where the central co-operative banks were weak, the commercial banks were to finance primary agricultural credit societies as a transitional measure. They would advance short- and medium-term credit only through the primary credit societies while they could provide long-term credit directly. In November 1972, the steering committee of the All-India Debt and Investment Survey (1971-72), RBI, in its assessment found that, although the commercial banks did provide the necessary finance, they did not pay much attention to the revitalisation of the societies and professionalisation of their management.

In December 1972, an RBI Study Team on Overdues found that defaults were by and large wilful and there was hardly any distinction between small and big farmers in this respect. Defective lending policies of the co-operatives, especially inadequate and untimely credit or over-financing or lack of supervision over the end-use of credit, fixation of unrealistic due dates and financing of defaulters combined with apathy of the managements in taking quick action against recalcitrant members, and lack of support from state governments had encouraged defaults and led to the piling up of overdues [Reserve Bank of India 1974, pp 224-25]. A programme of rehabilitation by way of relief in respect of defaults under short- and medium-term agricultural loans by non-wilful defaulters, especially those who belonged to the low income category, was also recommended. The team suggested several measures including automatic disqualification of managing committees/boards of directors, denial of fresh credit and voting rights to defaulters as well as their sureties, amendment of Co-operative Societies Acts of various states, the registrar to issue orders on his own motion for the recovery of loans as arrears of land revenue and the setting up of state farming corpora-

tions for the purchase of land of defaulters at the time of auction. Needless to say, these were all politically impossible propositions.

With the multiple institutional agencies operating in the field of rural credit—co-operatives, RRBs and commercial banks—a number of problems arose, such as, unco-ordinated credit disbursal, diversion to unproductive purposes, inability of the credit agencies to formulate agricultural programmes on the basis of an area approach, overlapping and duplication of banking facilities, lagging recovery, and numerous problems arising out of different systems, procedures, security norms, service charges, interest rates, etc.

In March 1979, the RBI appointed a committee to suggest improvements in the existing arrangements for institutional credit for agriculture and rural development (CRAFICARD). The committee noted that problems of agricultural credit had not only grown in complexity and size but had also merged with the larger tasks of rural development and recommended the setting up of a new apex bank—the National Bank for Agriculture and Rural Development (NABARD)—providing undivided attention, forceful direction, and pointed focus to the credit problems arising out of the integrated approach to rural development. The NABARD was to take over from the RBI the overseeing of the entire rural credit system including credit for rural artisans and village industries and the statutory inspection of co-operative banks and RRBs on an agency basis though the RBI could continue to retain its essential control. The Sixth Five-Year Plan (1980-85) endorsed the setting up of the NABARD and NABARD was established by an act of parliament in July 1982 "for providing credit for the promotion of agriculture, small-scale industries, cottage and village industries, handicrafts and other rural crafts and other allied economic activities in rural areas with a view to promoting integrated rural development and securing prosperity of rural areas".

The Sixth Five-Year Plan (1980-85) noted that mounting overdues had clogged the system of co-operative credit. At the end of June 1985, the percentage of overdues to demand at the PACS level was around 40 per cent while at the level of LDBs it was around 42 per cent. It was worse in the case of RRBs and commercial banks at around 50 per cent. The health of agricultural credit institutions, both co-operatives and commercial banks, was in a very sad state in many parts of the country. Wilful default and overdues were mounting even in co-operatively progressive states like Gujarat and Maharashtra.

Committee after committee had mentioned this *ad nauseam* but they ended up recommending bypasses to let the credit

flow round the overdues acting on the dictum: 'Credit should be given not only where it is due but also where it is overdue'. But, now a new factor had entered the system. By writing off agricultural loans and providing subsidies out of the state exchequer, some states had set a bad precedent. According to the Seventh Plan, if this trend was not reversed and if banks were reduced to institutions providing grants rather than recycling credit, the banking system would not be able to meet the credit needs of agriculture in future [Planning Commission 1985, Vol II, p 17].

These several problems were anticipated and articulated in the RCS Committee's Report (1954) But there appeared no other solution. Hence, the conclusion, in the famous phrase, was: "Co-operation has failed, but Co-operation must succeed" [Reserve Bank of India 1954, Vol II, p 372]. The remedy was to create "new conditions in which it can operate effectively and for the benefit of the weaker". The essence of the new conditions was state partnership at all levels. The need for a strong base was recognised. There were repeated exhortations to strength, to reorganise, to restructure, to revitalise the primary co-operatives. But, there was little appreciation that this could not be done by initiative from above. Instead, a weak base was vastly expanded as per plan targets and an immense governmental and semi-governmental superstructure was created. The driving principle seemed to have been: "If people cannot or will not do it, the state can and will do it."

There has been an admirable concern for the weak and the poor and, understandably, credit was the panacea because little else could be done within the framework of policy which prevailed over 40 years. That sometimes it can do more harm than good was recognised but was forgotten or overlooked. The RCS Committee (1954) had quoted a French proverb which says 'Credit supports the farmer as the hangman's rope supports the hanged' and made a perceptive observation: "But if credit is sometimes 'fatal', it is often indispensable to the cultivator. ...Agricultural credit is a problem when it cannot be obtained; it is also a problem when it can be had but in such a form that on the whole it does more harm than good" [Reserve Bank of India 1954, Vol II, p 151]. Unfortunately, this perception was not pursued and liberal credit was advocated not only where it was needed but where it would be taken. In justification, the committee said that "a large part of the working funds which the subsistence farmer needs has the appearance of being related to his consumption rather than to his production" and then with a certain prescience noted: "Such a farmer in effect requires what is familiar to governments in India as

'ways and means advances'". Precisely so. The ways and means advances are supposed to be very short-term borrowing by the government. But the government systematically converted them into long-term debt which now amounts to over two-thirds of the national income of the country and the interest payments on which amount almost to a quarter of the annual revenues of the government. In similar manner, overdues are mounting in agricultural credit with this difference that they are called by their proper name, namely, overdues.

Evidently, the forebodings of Darling have come true. The situation demands, not more of the same thing but, a new and fresh thinking. There are some signs of this in the reports of the latest two committees, one appointed by the RBI (1986) and the other by the ministry of finance (1991).

KHUSRO COMMITTEE

In August 1986, the Reserve Bank of India appointed yet another Agricultural Credit Review Committee (chairman: A M Khusro) which submitted its report in August 1989 [RBI 1989]. While the refrain of all previous committees and working groups had been that the co-operatives have not done as well as they should have, the Khusro Committee (1989) points out that the experience of commercial banks and RRBs has shown that the weaknesses which were earlier considered as those peculiar to the co-operative system in fact arise from such deficiencies as relate to the structure of agricultural production itself [RBI 1989, p 166, para 5.10]. But, then it missed the point and said nothing about how to restructure agricultural production. Instead, like all previous committees and working groups, it proceeded to consider how to reorganise the structure of rural credit as though this was a substitute to reorganise the structure of agricultural production. The three main elements in the structure of rural credit are the commercial banks, the regional rural banks, and the co-operatives. The committee considered them in that order.

As the committee points out that, the place of the commercial banks in the rural credit system rests on the fact that, if lendings to rural and weaker sections are to be at concessional rates, there has to be some cross-subsidisation and, in the Indian context, only commercial banks have the capacity to do it [RBI 1989, p 118, para 3.59]. But too much burden has been placed on the commercial banks. They are mandated to achieve certain targets and sub-targets under priority sector lendings. Forty per cent of the total credit is required to be channelled to identified priority sectors such as agriculture, small-scale industry, small business, etc. Direct finance to agriculture and allied activities is to reach a level of 17 per cent of net bank credit and credit for weaker

section 10 per cent. All these targets were achieved by the banks by March 1988 [RBI 1989, pp 81-82, paras 3.07 and 3.09]. The share of commercial banks in Integrated Rural Development Programme (IRDP) loans has gone up to 69 per cent, compared to 23 per cent that of RRBs and 8 per cent that of co-operatives [RBI 1989, pp 87-91, paras 3.13 to 3.18].

The commercial banks have found sanctioning and monitoring of a large number of small advances in their rural branches time consuming and manpower-intensive and consequently a high cost proposition. Also, the staff in rural branches of commercial banks lack sufficient motivation to work in the rural areas for various reasons, both monetary and non-monetary. Therefore, supervision of rural advances has come to be neglected. As a consequence, the overall recovery by commercial banks in respect of their direct advances to agriculture as at the end of June 1987 was 57.4 per cent. Their recovery under IRDP was even smaller, at 45.3 per cent [RBI 1989, pp 100-02, paras 3.34 to 3.37].

The overall profitability of the commercial banks has been under strain for some time due to rise in the cost of deposits, declining yield on advances, rise in establishment expenses, etc. Losses on account of rural business of commercial banks have been contributing to their overall losses. Low interest rates on agricultural advances, lendings under IRDP, relatively poor deposit mobilisation in rural branches, lower staff productivity, etc, have contributed to the poor profitability of rural business. As rural lending has been found contributing to losses cross-subsidisation has become necessary raising the cost of credit to the non-priority sectors [RBI 1989, pp 112-18, paras 3.52 to 3.59].

The committee concludes that if commercial banks are to emerge as a strong system to be able to purvey credit effectively and efficiently in the rural areas, the targets for financing weaker sections and the rural poor should be reasonable, such as the system can bear [RBI 1989, pp 127-30, paras 3.81 to 3.83].

Coming to RRBs, the committee points out that, in setting up the RRBs in 1975, the intention was to create an institution which combined the local feel and familiarity with the rural problems which the co-operatives possessed and the degree of business organisation and modernised outlook which the commercial banks had. Partnered by GOI, state government and sponsor bank in the equity ratio 50:15:35, these new banks were conceived as low cost district banks exclusively to meet the credit needs of the target group, i.e., small and marginal farmers, agricultural labourers, artisans and other rural residents of small means [RBI 1989, pp 131-34, paras 4.01 to 4.09]. But, the

RRBs have belied the basic assumptions of the Working Group on Rural Banks (1975). There has been near-parity in pay scales between commercial banks and RRBs. The local feel thought to be brought in by RRBs through their staff was not found to be the same as in co-operatives. As on June 1986, the recovery of RRBs was 49 per cent of demand. Wilful defaults, misuse of loans, lack of follow-up, wrong identification of borrowers, extension of benami loans, staff agitations, etc, contributed to the poor recovery in the RRBs [RBI 1989, pp 142-43, paras 4.21 to 4.22]. Add to this the fact that their lendings were exclusively to weaker sections, at low interest rate margins and high operating cost involved in handling small loans with no scope for cross-subsidisation [RBI 1989, pp 139-41, paras 4.18 to 4.20]. In consequence, there has been a steep decline in their profitability, poor recoveries and problems relating to management and staff. Out of the total of 194 RRBs in 1986, the number of RRBs working at loss was 148. The accumulated losses in respect of 157 RRBs at the end of December 1986 amounted to labour Rs 100 crore and these had wiped out the entire share capital of 117 RRBs as on that date [RBI 1989, pp 137-39, paras 4.15 to 4.17]. It will be only fair to say that weaknesses of RRBs are endemic to the system and non-viability is built into it. In the circumstance, the RRBs would not be able to serve the interests of the target group in the manner expected of them.

The committee concludes, that there can be no place for the RRBs in the country's rural credit system for the future and that they should be merged with the sponsor banks [RBI 1989 pp 148-49, paras 4.34 to 4.37]. The committee does not see that this will only add to already unbearable burden on the commercial banks. The committee is of course right that, if lendings to rural and weaker sections are to be at concessional rates, there has to be some cross-subsidisation. But the cross-subsidisation does not have to be within each institution or even within each component of the total system. As the committee elsewhere says, all that is needed is that the system consists of two segments, a larger segment responding to the market forces and operating side by side with a smaller, poorer, and hence protected segment and that the latter is within the absorbable capacity of the total system. In fact, if two segments are kept separate, it may help avoid leakages and give greater transparency to concessions and subsidies so that one knows who is paying for him and how much.

The committee confirms the major weaknesses of the co-operative system which umpteen previous committees, working groups, etc, have pointed out; namely, neglect of the base level institutions, with the

lower tiers looking up to the higher tiers for refinance at all levels while higher level institutions look after their own interests often at the cost of the primaries [RBI 1989, p 173, para 5.22]. The committee emphasises that the essence of basic features of co-operative banking system which must be a larger reliance on resources mobilised locally and a lesser and lesser dependence on higher credit institutions. Heavy dependence on outside funds has, on the one hand, made the members less vigilant, not treating these funds as their own, and on the other led to greater outside interference and control. Overall, this has made the co-operatives a mediocre, inefficient and static system [RBI 1989, pp 175-77, paras 5.27 to 5.29]. This is of course true, but while reiterating it, the committee forgets its own revelation, namely, that the vitality of the rural financial institutions depends on the vitality of the economy and the activities pursued by the borrowers. The fact is that agricultural credit co-operatives are essentially co-operatives of the borrowers and there is hardly any scope for raising resources except by coercive procedures.

Co-operation in India has been both state sponsored and state patronised. That was one of the basic tenets of the RCS Committee (1954). As already noted, 15 years after, the Rural Credit Review Committee in its report (1969), admitted that the Integrated Scheme of Rural Credit envisaged by the RCS Committee (1954), with state participation at every level of the co-operative structure, had not been pursued or implemented vigorously in all the states; this was only a polite way of saying that it had failed. The Khuro Committee (1989) has elaborated on this failure. It points out that the powers which vest in the government under the co-operative law and rules are all-pervasive and the state has come to gain almost total financial and administrative control over the co-operatives, in the process, stifling their growth. Some of the unhealthy results of politicisation are interference in the recovery of co-operative dues or promise to write off the dues if elected to power, and determination of interest rates on considerations other than financial returns, i.e., with an eye on populist appeal. Such actions generate a general psychology of non-repayment, vitiating the recovery climate and jeopardising the financial interest of credit agencies. Besides, mass supersessions are resorted to on political consideration. Paradoxically, state partnership which was conceived as an effective measure for strengthening the co-operative credit institution has paved the way for ever-increasing state control over co-operatives, culminating in virtually depriving the co-operatives of their democratic and autonomous character. Effective non-official leadership along with democratic management has disappeared

altogether. The time has come to reverse this process.

But, evidently, the committee did not think that the time had come to reverse the process of creating new institutions. It argued that the state apexes in the credit sector and the other larger co-operative banking systems with all-India jurisdiction have yet no national level bank of their own to function either as a national balancing centre of the surpluses of the state systems or the national level non-credit co-operative systems or the larger co-operative enterprises; these functions are today done in some areas perfunctorily and in others (such as deposit holders), effectively by the commercial banks. Only a national apex co-operative bank could fill the systemic gap and hopefully help build the systemic strength and cohesiveness which stems from a union of the state apexes. Hence, the committee recommended the establishment of a National Co-operative Bank of India (NCBI) [RBI 1989, pp 323-26, paras 8.01 to 8.09].

FINANCIAL SECTOR REFORM

In June 1991, the new government of India announced a New Economic Policy effecting major changes designed to correct the macro-economic imbalance and effect structural adjustment so as to bring about a more competitive system and promote efficiency in the real sectors of the economy. Financial sector reform is a necessary concomitant of trade and industrial policy liberalisation and in fact is critically important. Hence, the ministry of finance appointed a committee in August 1991 (chairman: M Narasimham) to examine all aspects relating to the structure, organisation, functions and procedures of the financial system. The committee submitted its report in November 1991.

The committee's criticism of the statism which has entered into the financial system will bear some repetition. The most important aspect of statism has been policy-induced rigidities such as an excessive degree of central direction in terms of investments, credit allocations, branch expansion, and even internal management aspects of the business. There has also been an element of political interference to which the system has been subjected and which has come in the way of the institutions operating on the basis of their commercial judgment and in the framework of internal autonomy. Indian banks operating as they do within the confines of a rigidly controlled system have virtually ceased being competitive or innovative.

The claims of the government and public sector on the banking system's resources have been steadily rising through the mechanism of the statutory liquidity ratio (SLR)

which today accounts for 38.5 per cent of the net demand and time liabilities of the system. The figure for priority sector lending has now reached the current target of 40 per cent of aggregate bank credit. A significant part of the expansion in the priority sector credit has been in respect of agriculture as needed to meet the sub-target for this sector of 18 per cent of aggregate credit. Small-scale industry comprising both industry, transport and the self-employed, represents the other important priority sector and the attention which the banks have been paying to meeting the needs of this sector is reflected in the growth of credit to it to a level of almost Rs 16,000 crore in 1990, representing 16.5 per cent of total bank credit. Given the overall resource constraint, an increase of credit to the priority sector has meant a certain pruning of credit to the non-priority sectors.

The relative insulation of priority sector advances from overall credit restriction during periods of tight monetary policy has meant both a reduction in relation to requirements of such credit to the non-priority sectors and an increase in the cost of such credit as an aspect of cross-subsidisation to recompense the lower rates earned on priority sector credit.

Most of the expansion in volume and in the number of borrowal accounts has been in respect of the agricultural sector. Agricultural credit deployment has risen to a level of over Rs 14,000 crore and now exceeds the same by the co-operatives. The system of directed credit programmes has contributed to an expansion of credit in the directions that were considered necessary. In purely quantitative terms this expansion must be regarded as a successful fulfilment of the objectives of such redirection. However, this achievement has been brought about at the cost of a deterioration of the quality of the loan portfolio, the growth of overdues and consequent erosion of profitability. Fixation of targets for specific sector lending was essentially the means to achieve the broader goals of credit allocation, but over the years the means appear to have become ends in themselves. The desire to attain credit targets has meant inadequate attention to qualitative aspects of lending and consequent rise in loan delinquencies.

The objective of developmental credit policy was to forge a link between technological upgradation in agriculture and small industry and the availability of finance to enable such technological upgradation. This was the basis for the emphasis of purpose-oriented credit as distinct from the earlier security orientation. But, this has led to blurring of the distinction between the concepts of credit need and credit-worthiness. The disturbing growth in overdues is a consequence of the measure of laxity and

departure from the principles of sound banking. But by far the most serious damage to the system and one which has contributed to the decline in portfolio quality has been the evidence of political and administrative interference in credit decision-making. Populism and political and administrative influence bordering on interference should have no place in the lexicon of banking and finance but unfortunately, over the years, competitive populism has affected banking and credit operations.

The experience with regard to IRDP is instructive in this regard. In many cases of IRDP lending, banks have virtually abdicated their responsibilities in undertaking need-based credit assessment and appraisal of potential viability and instead have tended to rely on lists of identified borrowers prepared by government authorities. The phenomenon of loan melas was quite contrary to the principles of a professional appraisal of bank credit needs. There was hardly any serious appraisal of credit need, potential productive activity or provision for effective post-credit supervision. The intended socially-oriented credit, in the process, degenerated into irresponsible lending. Loan waivers have added an additional element of politicisation of banking apart from the grave damage to the concept of credit discipline by encouraging defaults. The political element which condones overdues should also have paid regard to the social obligation which banks owe to their depositors to invest their funds with due prudence.

Directed credit programmes have had adverse implications for the profitability of banks also because of the stipulation of concessional lending rates on priority sector credit and the element of subsidy on such lending which now accounts for a not insignificant portion of banks' spread. Subsidisation of this type of lending arises from the misconception that socially oriented credit should also be low cost credit. Subsidisation of credit is clearly a case of misplaced emphasis; timely and adequate access to credit is more important than its cost.

If the logic of extension of credit to the priority sector is to make these sectors economically viable by enhancing production and productivity, two decades of such preferred credit is a long enough period to attempt an evaluation of its continuing need, particularly to those who are able to stand on their own feet and to whom the directed credit programmes with the element of interest concessionality that has accompanied it, has become a source of economic rent. Hence, the committee suggests that the system of directed credit programmes should be gradually phased out making it economically worthwhile for banks to expand their lending to these sectors with-

out detriment to loan quality or banks' income.

Regarding the RRBs, the committee agreed with the assessment of the RBI Committee (1989), but suggested a different solution, namely, that the sponsor banks should segregate the operations of their rural branches through the formation of one or more subsidiaries which should be treated on par with the RRBs in regard to cash reserve and statutory liquidity requirements and refinance facilities from NABARD with a view to improving the viability of rural operations.

We may now put together certain comments and recommendations of the last two committees which show some signs of fresh thinking on this question which, for almost four decades, had bogged down in the principles enunciated and recommendations made by the RCS Committee (1954). As the Khusro Committee (1989) points out "The vitality of the rural financial institutions depend on the vitality of the economy and the activities pursued by the borrowers" (paras 1.50 to 1.52) and further "The weaknesses which were earlier considered as those peculiar to the co-operative system in fact arise from such deficiencies as relate to the structure of agricultural production itself" (para 5.10). Therein lies the non-viability of the primary credit societies at the village level. No wonder that all efforts to revitalise them have failed.

There was little realisation, at least open admission, that the primary societies will remain non-viable so long as the structure of agricultural production remained what it was. Instead, on this weak base, was raised an imposing super-structure which subsequent committees kept reshuffling and creating some new institutions adding confusion to the confounded thinking. The Khusro Committee (1989) also pronounces the cardinal truth, namely, "In a poverty ridden economy, financial institutions do have a responsibility towards weaker sections, but it is essential to recognise the limitations of credit as the principal instrument of poverty alleviation". The Narasimham Committee opined that "the pursuit of distributive justice should use the instrumentality of the fiscal rather than the credit system".

These are good starting points for a new thinking in this field but neither of the two committees did go further and consider how to reorganise the structure of agriculture production rather than the structure of rural credit; probably, they thought that this would mean going beyond their terms of reference. Surprisingly and notably, the very First Five-Year Plan (1951-56), in its Draft Outline, had put its finger on the essence of the problem. It said: "Many of the weaknesses of Indian agriculture are inherent in the structure of the rural economy. The

bulk of the agricultural producers live on the margin and are unable to invest in the improvement of the land. There is widespread under-employment...and the economy cannot provide and sustain continuous employment for the available labour... The conditions are typical of a static, backward economy, which is unable to expand and keep pace with the growing population" (Planning Commission 1951, p 94). The remedy was sought in a radical reorganisation of its structure of production which was called co-operative village management. The Commission was aware that "under co-operative management fewer hands would be needed for cultivation than at present" (Planning Commission 1951, p 101) and, that, therefore, "the pace at which co-operative village management should be developed, would depend upon the pace at which, simultaneously, it was possible to absorb workers released from the village" (Planning Commission 1951, p 102). The Commission knew that this would be a long process.

Hence, it proposed a more modest programme for immediate action, namely, to organise agriculture into two sectors: one of private registered farms being holdings above a prescribed level and the other of co-operative farming societies comprising holdings below the prescribed level (Planning Commission 1951, p 103). The chief merit of this proposal lies in its explicit recognition of two sectors in Indian agriculture—one viable and the other non-viable. From the point of view of rural credit, this is an important distinction and it is advisable, as both the RBI (1989) and the Narasimham (1991) committees have suggested, to make and maintain that distinction.

We may first consider the viable sector. Its definition in terms of holdings above a certain prescribed limit is not quite relevant for purposes of viable banking whether commercial or co-operative. From a banker's point of view, a farm is viable if its proposal for a loan, whether short-term, medium-term or long-term, is bankable at market rate of interest. Whether such a farm should be registered is a matter of detail. There is an obvious advantage in registering it provided it does not create a web of bureaucracy which can entangle and destroy any reasonable proposition. If registered, it may be brought under tax and labour laws in due course. But this can wait. For immediate purposes, we recognise that it has a proven ability and competence to use credit productively and it is essential that it has opportunity to expand as a farm.

From this point of view, it will be necessary to reconsider the present laws concerning tenancy and ceiling on holdings. There was a time when tenancy legislation giving

security of tenure and regulating rent and, in some cases, making the tenant the owner of the land, was necessary and justifiable. The purpose was to promote owner cultivation. Owner cultivation had to be promoted by legislation because, with the traditional agricultural technology, cultivation was not profitable and landowners preferred to lease out their land, rack-renting and otherwise exploiting the tenant through trading and money-lending as allied activities. For the same reason, a non-agriculturist was prohibited to purchase agricultural land. In the conditions of agricultural technology then prevailing, the nexus of absentee ownership, trading, and money-lending had to be broken. There is no denying that the success has been only partial. One reason is that millions of owners and tenants are involved and the arm of the law does not reach them all. More importantly, with the new agricultural technology coming in, things have changed radically. Owner cultivation of a minimum size of land has become viable and it no longer needs legislative support. We have not taken note of this fact and continue with the same old tenancy legislation.

The second element is ceiling on land-holdings. One must admit that this has almost totally failed; that it has been circumvented by various means such as subdivision and 'benami' transactions. One need not be surprised. The surprising part is that it was at all accepted showing how politically weak was the lobby of even owner-cultivators in those early days. They were called kulaks, the enemies of socialism, and they admitted the sin silently. Ceiling on landholdings is a ceiling on income that one may make from owner-cultivated agriculture and hence constitutes a ceiling on ability and intelligence that will enter and stay in agriculture. It further weakens agriculture politically.

Of course, that was not the explicit intention of ceiling legislation. Its purpose was to acquire ceiling surplus land and to distribute it to the landless in the false belief that ownership of land, however small, itself is a value. Whatever the success of these measures, they tended to freeze the situation in agriculture and inhibit movement in and out of agriculture. The case for ceiling was argued and supported by elaborate academic exercises, by academics whose own salaries were way above the ceiling income in agriculture. They demonstrated, by questionable statistical methods, that productivity of resources was greater on a small farm than on a large one and, more importantly, there was greater 'labour absorption' in a small farm than in a large one. 'Labour absorption' is an obnoxious and hateful concept made fashionable by academics working in or for international organisations drawing salaries and

pensions that would make even the old zamindars green with envy. These academics have not bothered to divide the net value added in a small farm by the labour 'absorbed' in it, and to ask whether the labour so 'absorbed' gets a minimum subsistence or is only absorbed by the soil. Underlying all these sophisticated exercises and the prose developed around it, is the fact that our land reforms, other than abolition of feudalism in land relations, is aimed at keeping all the surplus population in agriculture and give it some succour without withdrawing it from agriculture.

The unspoken intention is to protect the organised labour in the non-agricultural sector, the vanguard of socialism, from the invasion of the reserve army held in agriculture. As a result, the differential between the per worker GDP in agriculture and non-agriculture has been steadily growing; the ratio of per worker GDP in non-agriculture to per worker GDP in agriculture was 2.19 in 1950-51; it increased to 2.69 in 1960-61, to 3.46 in 1970-71, to 3.73 in 1980-81 and to 4.35 in 1989-90. The non-agricultural sector does not take in any more people than it can remunerate at the relatively high level. All the rest must stay behind in agriculture and share whatever may grow there. Agriculture has been treated as a parking lot for the poor.

MAKING AGRICULTURE VIABLE

By 1965, the new agricultural technology was on the horizon and it was possible to visualise that owner cultivation would soon become viable. Hence, a new strategy for agricultural development was devised with greater emphasis, quite rightly, on the application of the latest advances in agricultural technology. But there was hardly any new thinking on land reforms. Earlier positions on tenancy reform and ceiling on landholdings had hardened. Time has come to reconsider these positions. A viable farm, one which can use credit at market rate, must have opportunities to grow as a farm. An essential condition for an industry to grow is that a firm engaged in it must have capacity and an opportunity to grow; a salaried radical or a policy-maker would not recognise this because he is accustomed to annual increments and promotion by sheer passage of time. Like an industry, for agriculture to grow, a farm or a farmer must have capacity to create a surplus and plough it back in agriculture and thus grow as a farmer. The new technology has made this possible, but the ceiling laws have made it impossible. Hence, the first thing to do is to remove the ceiling. A farmer should be allowed to buy or even lease-in land and expand his holding. It is these technologically oriented and commercially minded farmers who will now form the nuclei of

future agricultural development; not the T and V system which has served its purpose. Rural banking, whether commercial or co-operative, should support such viable farmers or their associations, whether co-operative or corporate, on purely commercial considerations.

It is important to recognise that, in the present circumstances, there are limits to the amount of surplus that agriculture, even its viable sector, can generate for its own development and that therefore, like a developing country needs outside capital, so does agriculture. The loan capital must come from the banking sector, whether commercial or co-operative. But that is not enough. Like a developing country, agriculture needs outside capital in the form of investment and conditions need to be created so that outside, that is, non-agricultural capital may flow into agriculture as a purely business proposition. There are several small and large agricultural development projects such as watershed development or wasteland development or afforestation which require large-scale acquisition and development of land. This can be done only by private capital from outside agriculture. This needs to be not only permitted but actively encouraged whether it comes in the form of investment by persons or associations of persons organised whether as co-operatives or as partnerships, private or public limited companies. For almost four decades, we have tried to grow co-operation in agriculture as one component of a larger concept of a co-operative commonwealth. This has proved to be a utopia. Time has come to wake up and turn attention to letting agriculture prosper, at least in its viable sector, by attracting loan and equity capital from outside agriculture. This requires that a non-agriculturist, whether a person or an association of persons, whether co-operative or corporate, should be able to buy or lease in land enter agriculture as a commercial proposition. Rural banking, whether commercial or co-operative, should support such enterprise on purely commercial considerations.

Let us now consider the non-viable sector consisting of holdings below the prescribed limit; in other words, of small and marginal farmers and sub-marginal farmers and agricultural labour. This is a sector which cannot afford credit at market rates of interest. Indeed, their problem is not one of credit but of income which means gainful employment. Nevertheless, credit continues to be looked at as a panacea for all problems and ills of agriculture and weaker sections. Even the Narasimham Committee suggests (1991) that the directed credit programmes should cover a redefined priority sector, consisting of the small and marginal farmer, to which are also added tiny sector of industry, village and cottage industries, rural

artisans, small business and other weaker sections and that the credit target for this redefined priority sector should be fixed at 10 per cent of the aggregate bank credit though later it does suggest that the system of directed credit programmes should be gradually phased out making it economically worthwhile for banks to expand their lending to these sectors without detriment to loan quality or banks' income. What one needs is a more detailed indication of how directed credit programmes should be gradually phased out.

The Khusro Committee (1989) has a more stylised formulation. It envisages, what it calls, a socially tempered market system for rural credit where a larger segment responding to the market forces should operate side by side with a smaller social segment and cautions that the social component has to be within the absorbable capacity of the total system as otherwise it would be counter-productive for the social component itself [RBI 1989, pp 4-6, paras 1.08 to 1.12]. What the committee calls the social component is evidently the non-viable sector. What both the committees have argued conclusively is that any concessional credit to the non-viable sector has proved not only counter-productive to that sector but also detrimental to the otherwise viable sector turning it almost non-viable. One must therefore consider how concessional credit to the non-viable sector may be gradually phased out as the Narasimham Committee (1991) has suggested.

As earlier mentioned, committee after committee has pointed that the entire co-operative credit structure has been built on a weak base, namely, the primary credit societies at the village level without realising, or at least openly admitting, that the primary societies are weak because their lending business is essentially non-viable. Hence, little was done except to exhort that the primary societies should be revitalised. Now, if we wish to take seriously the Narasimham Committee's (1991) suggestion that the concessional credit to the non-viable sector should be gradually phased out, it will amount to gradually winding up co-operative credit institutions at all levels as privileged institutions and bring such of them as will survive on par with the commercial banks. This is what was suggested, without saying it in so many words, by the Informal Group on Institutional Arrangements for Agricultural Credit which the RBI has set up in 1964, which is more than 25 years ago. The corrective measures suggested by the group included, besides the usual exhortation to revitalise the co-operative credit structure from the primary level upwards, (i) liquidation of all dormant societies which were beyond redemption, (ii) provision of credit to non-

defaulting cultivators of such dormant societies through the central or the apex banks or their branches; (iii) amalgamation of non-viable central banks; (iv) statutory provisions for creating a charge on the land of the defaulting cultivators; and (v) coercive processes for recoveries of outstanding loans. Later, the Study Team on Overdues of Co-operative Credit Institutions constituted by the RBI in 1972 had suggested several measures such as (i) automatic disqualification of managing committees/boards of directors, (ii) denial of fresh credit and voting rights to defaulters as well as their sureties, (iii) amendment of Co-operative Societies Acts of various states enabling the Registrar to issue orders on his own motion for the recovery of loans as arrears, and (v) the settling up of State Farming Corporations for the purchase of lands of defaulters at the time of auction.

Among these several recommendations, (iv) and (v) of the Informal Group (1964) and all the recommendations of the Study Team (1972) concern the recovery of overdues and the steps suggested are politically impossible propositions. We shall presently return to them. However, recommendations (i), (ii), and (iii) of the Informal Group (1964) are perfectly legitimate and feasible propositions and if followed through consistently give a phased programme of gradually rolling the entire network co-operative credit institutions in each state into two apex institutions, namely, State Co-operative Bank providing short-term credit and State Land Development Bank providing long-term credit. These two co-operative banks should work on par with and in competition with the commercial banks and development finance institutions without any special privileges except that they may be allowed to pay a slightly higher rate of interest on their deposits so long as they say viable.

Coming to the recommendations of the Informal Group (1964) and the Study Team (1972) concerning the recovery of overdues, it seems that a more positive and helpful approach than coercion is possible. We suggest that in such cases, the banks, both state co-operative and the state land development, should provide service to sell the land of the defaulters so that they may get better than the distress prices. The service may be extended to the non-borrowers who are prudent enough not to borrow. Such sales should be exempt from the stamp duty provided the seller will agree to deposit the sales proceeds with the bank, net of bank recoveries if any, for a minimum period of say five or 10 years. As an incentive, a slightly higher interest may be paid on such deposits. The purpose is not to allow the seller to spend away the sales proceeds and become a destitute. It is likely that if a small, marginal, and sub-marginal farmer

sells his land and keeps the sales proceeds in a fixed deposit, he will be better off than if he continues to cultivate the land, most often on borrowed money. It is thus that in due course a large number of persons may get out of the non-viable sector of agriculture.

In most cases, the lands on sale will be purchased by a viable farmer or other agricultural enterprises which we have suggested should be allowed to buy or lease in land. This is better than the recommendation of the RBI Study Team on Overdues (1972) to set up state farming corporations for the purchase of lands of defaulters at the time of auction. It is better for two reasons: First, a private sale, not necessarily to the lender, will be less humiliating than a public auction. Second, the land in question will be better cultivated if it is purchased by a private farmer with a stake than by a state farming corporation with no stakes whatever.

WITHDRAWING SURPLUS POPULATION FROM AGRICULTURE

All this sounds harsh but, unfortunately, this is the crux of restructuring agricultural production so that it may become viable as an industry. The principal problem of Indian agriculture is that it is overburdened with a disproportionate share of our population. Further, as suggested above, if agriculture is divided into two sectors, viable and non-viable, it will be seen that it is the

non-viable sector which bears the burden of the surplus population. In fact, the non-viable sector is non-viable not because it lacks technology or credit, but because it has to bear the burden of all the surplus population which the rest of the economy refuses to support. Hence, the solution lies in withdrawing permanently or semi-permanently a sizeable population out of the non-viable sector of agriculture and reduce its burden. It is precisely this process which the banks, as suggested above, should initiate and expedite.

The population which thus comes out of agriculture will have to be given gainful employment either self-employment or wage employment. There is a certain philosophical position which prefers self-employment to wage employment. In the past, attempts have been made by promoting highly subsidised labour-intensive technology. More recently, this is sought to be done through the Intensive Rural Development Programme (IRDP) partly supported by bank credit. In both cases, the person is left to his devices to fend for himself in the market place.

Some wage employment will be available in the viable sector and also in the agricultural enterprises set up by erstwhile non-agriculturists. But this may not be enough and some additional employment will have to be provided in the plan in the projects pertaining to construction of roads, soil and water conservation, afforestation, etc. Whether these are executed departmentally

Kashmir: Towards Insurgency

BALARAJ PURI, journalist, columnist and social activist, primarily in Jammu and Kashmir.

Kashmir: Towards Insurgency attempts to understand the nature and historical roots of the insurgency in Kashmir. It traces the complicated history of the early years after independence when the stability of Kashmir was the subject of intense debate, and examines the process through which the emotional ties between Kashmir and the rest of the country were eroded and the basis of secular and democratic politics in the region were weakened. As the Indian state lost its legitimacy, militant groups gained popular support. This tract attempts to understand the logic of terrorism and secession and reflects on the ways in which such forces can be politically contained and democratic process in Kashmir may be re-introduced.

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or by private contractors including labour co-operatives is a matter of detail somewhat outside the present subject. But, employment on regular plan projects is to be preferred to special employment programmes such as the Jawahar Rojgar Yojana. Hence, enough funds must be provided in the plan for such projects.

Besides the plan projects, an employment programme will be useful as a standby. There has been much talk of the support prices for agricultural produce. There is an equal need for a support price for labour which, at present, one might place at Rs 1,000 per month. This is not much more than the poverty line income for a family of five. Let the government offer a wage of Rs 1,000 per month to whosoever is willing to work on whatever and wherever work is available; transport and temporary hutments taken care of. Let the marginal and sub-marginal farmer and the landless take it or leave it. The employment must be permanent but on condition that one is willing to work wherever work is available. The present notion of giving employment near everybody's home is romantic; there are no useful or productive works near everybody's home. This is not an occasion to expand on this theme. But I shall say that the financial resources presently being spent on several poverty alleviation and employment programmes and the credit being sunk in non-viable propositions are adequate to undertake such a programme.

This will require a mobile labour force mobilised in appropriate labour organisations. Two types of labour organisations are possible and both may be tried. One is the labour co-operatives with a minimum number of 50 workers as the present law provides. The government should guarantee continued employment from one work to another on a contractual basis to all labour co-operatives provided they are willing to move from work to work. Possibly, all small and medium works can be executed through such labour co-operatives. The other form of labour organisations is what, in the Draft First Five-Year Plan, was called the land army. We need not go into details of its regional organisation. The state governments should prepare massive projects of irrigation, afforestation, soil and water conservation, major road construction, and the like, with estimates of mandays required. The Land Army should execute these works by employing labour as far as possible in the local area but moving it when necessary wherever work is available. The country has the necessary organisational ability which has never been tried and financial resources which are being frittered away elsewhere.

It may be said that such an offer of a salaried and assured employment may in-

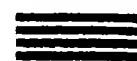
duce many marginal and sub-marginal farmers to lease out or sell their lands and leave agriculture. But, precisely this should be the objective of restructuring agricultural production; namely, to enable the non-viable farmer to come out of agriculture; at least, to give him the option. Forty years ago, the Draft Outline of the First Five-Year Plan in a chapter titled 'Reorganisation of Agriculture' had categorically stated that agriculture cannot be developed as an efficient industry unless... "the number of workers engaged in the ordinary operations of farming is reduced". This cardinal truth can no longer be neglected.

Finally, a few suggestions regarding the manner in which the present banking system, both commercial and co-operative should be reorganised. First, let the various co-operative credit institutions function so long as they are commercially viable. Otherwise, they should be gradually phased out. We have already referred to the recommendations of the Informal Group on Institutional Arrangements for Agricultural Credit (1964). Regarding the commercial banks, particularly the nationalised ones, as already mentioned, the Narasimham Committee (1991) suggested a reorganisation of the banking structure which should consist of (a) Three or four large banks (including the State Bank of India) which could become international in character; (b) Eight to 10 national banks with a network of branches throughout the country engaged in general or universal banking; (c) Local banks whose operations would be generally confined to a specific region; and (d) Rural banks (including RRBs) whose operations would be confined to the rural areas and whose business would be predominantly engaged in financing of agriculture and allied activities. This is being too mechanical. The whole economy, comprising agriculture, industry, and services is becoming every day more and more complex, and for intelligent banking, the banking system must remain alive to the latest developments in each sector. No single bank can do this. Hence, each bank, at least the nationalised banks, should be asked to progressively specialise in one or more areas and withdraw from the rest. The State Bank of India with over 60,000 branches spread all over the country is best equipped to fulfil the banking needs of agriculture, agricultural processing industries, and agricultural exports. Let it devote itself to this single task and leave the other fields to the other banks.

[This is the text of C E Kamath Memorial Endowment Lecture, delivered by the author on February 26, 1993, at Mangalore University.]

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ANZ Grindlays Bank plcIncorporated in the United Kingdom.
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AS AT MARCH 31, 1993**

Schedule	As at 31/3/1993	As at 31/3/1992
	Rs. '000	Rs. '000
CAPITAL AND LIABILITIES		
Capital 1	21,960	21,960
Reserves and Surplus 2	4,179,057	2,040,190
Deposits 3	44,622,985	36,164,603
Borrowings 4	8,335,985	5,163,357
Other Liabilities and Provisions 5	4,334,378	5,657,927
	<u>61,494,365</u>	<u>49,048,037</u>
PROPERTY AND ASSETS		
Cash and Balances with Reserve Bank of India 6	6,932,658	6,530,567
Balances with Banks and Money at Call and Short Notice 7	1,541,217	2,987,770
Investments 8	24,542,741	18,291,886
Advances 9	18,614,131	17,429,813
Fixed Assets 10	2,355,357	528,342
Other Assets 11	7,508,261	3,279,659
	<u>61,494,365</u>	<u>49,048,037</u>
Contingent Liabilities 12	54,070,003	68,833,152
Bills for Collection	3,488,904	4,286,011

**PROFIT AND LOSS ACCOUNT OF INDIAN
BRANCHES FOR THE YEAR ENDED
MARCH 31, 1993**

Schedule	Year Ended 31/3/1993	Year Ended 31/3/1992
	Rs. '000	Rs. '000
INCOME		
Interest Earned 13	6,581,362	5,757,429
Other Income 14	880,122	1,675,590
	<u>7,461,484</u>	<u>7,433,019</u>
EXPENDITURE		
Interest Expended 15	5,140,279	3,798,776
Operating Expenses 16	1,370,497	1,305,513
Provisions and Contingencies	620,316	1,408,576
	<u>7,131,092</u>	<u>6,512,865</u>
PROFIT/LOSS		
Net Profit for the Year	330,392	920,154
Profit Brought Forward	1,220,020	648,937
	<u>1,550,412</u>	<u>1,569,091</u>
APPROPRIATIONS		
Transfer to Reserve under Section 11(2)(b)(ii)	66,078	184,031
Transfer to Surplus on Sale of Immovable Properties Reserve	415	0
Remitted to Head Office	108,649	165,040
Transfer to Property Investment Reserve	70,000	0
Balance Carried Over to the Balance Sheet	1,305,270	1,220,020
	<u>1,550,412</u>	<u>1,569,091</u>

See notes appended

In terms of our attached report of even date

S. R. Bailiboi & Co.

Chartered Accountants

Per N. H. MIRZA
A PartnerR. SRINIVASAN
General Manager, Corporate AffairsB. M. McCANCE
General Manager, South Asia

Bombay, 16th September, 1993

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SCHEDULES FORMING PART OF THE BALANCE SHEET AS AT MARCH 31, 1993

	As at 31/3/1993	As at 31/3/1992		As at 31/3/1993	As at 31/3/1992
	Rs. '000	Rs. '000		Rs. '000	Rs. '000
SCHEDULE 1—CAPITAL			SCHEDULE 3—DEPOSITS		
Amount deposited with the Reserve Bank of India under Section 11(2) of the Banking Regulation Act, 1949 (Market value of securities lodged)	600,500	400,000	Demand Deposits		
Head Office Reserve (Amount remitted in sterling from head office)	21,960	21,960	From Banks	261,867	377,182
	21,960	21,960	From Others	5,389,806	6,211,726
SCHEDULE 2—RESERVES AND SURPLUS				5,651,673	6,588,908
Statutory Reserve			Savings Bank Deposits	5,683,816	5,571,074
Reserve under Section 11(2)(b)(ii) of the Banking Regulation Act, 1949			Term Deposits		
Opening Balance	372,450	188,419	From Banks	8,822,480	5,877,067
Additions during the year	66,078	184,031	From Others	24,465,016	18,127,554
	438,528	372,450		33,287,496	24,004,621
Capital Reserves				44,622,985	36,164,603
Property Revaluation Reserve			Deposits of branches in India	44,622,985	36,164,603
Opening Balance	123,537	123,537	SCHEDULE 4—BORROWINGS		
Additions during the year	1,628,170	0	Borrowings in India		
Deductions during the year	1,856	0	Reserve Bank of India	2,521,700	575,800
	1,749,851	123,537	Other Banks	1,250,000	2,799,787
Surplus on Sale of Immovable Properties (net of capital gains tax)			Other Institutions and Agencies	1,492,702	44,294
Opening Balance	3,039	3,039		5,264,402	3,419,881
Additions during the year	415	0	Borrowings outside India	3,071,583	1,743,476
	3,454	3,039		8,335,985	5,163,357
Property Investment Reserve			Secured Borrowings included above	2,576,902	620,094
Opening Balance	168,617	168,617	SCHEDULE 5—OTHER LIABILITIES AND PROVISIONS		
Additions during the year	70,000	0	Bills Payable	1,159,318	2,031,406
	238,617	168,617	Interest Accrued	2,075,146	1,320,553
Other Reserve			Others (including provisions)	1,099,914	2,305,968
Opening Balance	1,229	1,229		4,334,378	5,657,927
Head Office General Charges Reserve			SCHEDULE 6—CASH AND BALANCES WITH RESERVE BANK OF INDIA		
Transferred from other liabilities and provisions (Refer Note 2(i))	197,976	0	Cash in Hand (including foreign currency notes)	152,435	144,957
	2,191,127	296,422	Balances with Reserve Bank of India		
Revenue and Other Reserves	0	0	In Current Account	6,780,223	6,385,610
Profit and Loss				6,932,658	6,530,567
Balance carried forward per Profit and Loss Account	1,305,270	1,220,020			
Add: Tax Credits Receivable (on Specific Provisions for Doubtful Debts)	244,132	151,298			
—Contra to Other Assets	1,549,402	1,371,318			
	4,179,057	2,040,190			


SCHEDULES FORMING PART OF THE BALANCE SHEET AS AT MARCH 31, 1993

	As at 31/3/1993	As at 31/3/1992		As at 31/3/1993	As at 31/3/1992
	Rs. '000	Rs. '000		Rs. '000	Rs. '000
SCHEDULE 7—BALANCES WITH BANKS AND MONEY AT CALL AND SHORT NOTICE			SCHEDULE 10—FIXED ASSETS		
In India			Premises		
Balances with Banks in India			At cost/valuation as on 31st		
Current Accounts	63,240	105,385	March of the preceding year	223,829	180,934
Money at Call and Short Notice			Additions during the year	14,558	42,895
With Banks	724,935	0	Revaluation during the year	1,565,252	0
	788,175	105,385	Deductions during the year	2,319	0
			Depreciation to date	0	52,704
Outside India				1,801,320	171,125
Current Accounts	753,042	2,882,385	Other Fixed Assets (Including		
	1,541,217	2,987,770	Furniture and Fixtures)		
			At cost as on 31st March of the		
SCHEDULE 8—INVESTMENTS			preceding year	518,195	387,058
Investments in India in			Additions during the year	152,588	133,310
Government Securities	16,448,411	12,480,157	Deductions during the year	1,777	2,173
Other Approved Securities	726,458	3,174,829	Depreciation to date	241,917	183,770
Shares	73,149	18,151		427,089	334,425
Debentures and Bonds	5,440,672	1,647,077	Capital Work-in-Progress	126,948	22,792
Subsidiaries and/or				2,355,357	528,342
Joint Ventures	1	1			
Other Investments	1,854,050	971,671	SCHEDULE 11—OTHER ASSETS		
	24,542,741	18,291,886	Inter-Office Adjustments (Net)	772,724	1,052,023
Market Value of Investments in			Interest Accrued	507,140	728,355
Government and Other Approved			Tax Credits Receivable—Contra to		
Securities	17,174,869	15,665,737	Profit and Loss	244,132	151,298
			Amount Receivable—National		
SCHEDULE 9—ADVANCES			Housing Bank (Refer Note 2(a))	5,065,455	0
Bills purchased and discounted	3,136,435	4,422,317	Others	918,810	1,347,983
Cash credits, overdrafts and				7,508,261	3,279,659
loans repayable on demand	9,731,404	9,357,543			
Term loans	5,746,292	3,649,953	SCHEDULE 12—CONTINGENT		
	18,614,131	17,429,813	LIABILITIES		
			Claims against the bank not		
Secured by tangible assets	13,292,913	14,728,043	acknowledged as debts (Refer		
Covered by Bank/ Government			Note 2(a) and 2(b))	5,437,033	662
guarantees	4,499,212	6,759,716	Liability for partly paid		
Unsecured	2,019,133	4,774,148	investments	0	5,724
	19,811,258	25,261,907	Liability on account of outstanding		
Less: Bills Rediscounted	1,197,127	8,832,094	forward exchange contracts	27,592,944	41,593,046
	18,614,131	17,429,813	Guarantees given on behalf of		
			constituents		
Advances in India			In India	13,893,585	11,161,312
Priority Sector	2,626,750	2,267,615	Outside India	392,584	100,851
Public Sector	299,905	1,702,882		14,286,169	11,262,163
Banks	1,428,882	3,244,310	Acceptances, endorsements and		
Others	15,455,721	19,047,100	other obligations	5,152,330	6,744,690
	19,811,258	26,261,907	Other items for which the bank is		
Less: Bills Rediscounted	1,197,127	8,832,094	contingently liable (including bills		
	18,614,131	17,429,813	rediscounted)	1,601,527	9,226,867
				54,070,003	68,833,152



**SCHEDULES FORMING PART OF PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED MARCH 31, 1993**

	Year Ended 31/3/1993	Year Ended 31/3/1992		Year Ended 31/3/1993	Year Ended 31/3/1992
	Rs. '000	Rs. '000		Rs. '000	Rs. '000
SCHEDULE 13—INTEREST EARNED			SCHEDULE 16—OPERATING EXPENSES		
Interest/discount on advances/bills	3,625,047	3,279,637	Payments to and provisions for employees	591,137	587,618
Income on Investments	2,265,244	1,449,361	Rent, taxes and lighting	101,653	76,410
Interest on balances with Reserve Bank of India and other Inter-Bank Funds	691,071	1,027,353	Printing and stationery	77,663	52,422
Others	0	1,078	Advertisement and publicity	63,675	65,221
	<u>6,581,362</u>	<u>5,757,429</u>	Depreciation on Bank's property	69,908	51,610
SCHEDULE 14—OTHER INCOME			Indian advisory board members fees, allowances and expenses	3,330	1,773
Commission, exchange and brokerage	708,457	625,638	Auditor's fees and expenses	1,200	625
Net profit/(loss) on sale of investments	326,818	533,038	Law charges	15,287	5,127
Net profit/(loss) on revaluation of investments	(686,803)	0	Postage, telegrams, telephones, etc.	71,230	61,609
Net profit/(loss) on sale of land, buildings and other assets	840	845	Repairs and maintenance	102,027	73,544
Net profit/(loss) on exchange transactions	509,424	506,287	Insurance	27,919	19,874
Miscellaneous income	21,386	9,782	Other expenditure	245,468	309,680
	<u>880,122</u>	<u>1,675,590</u>		<u>1,370,497</u>	<u>1,305,513</u>
SCHEDULE 15—INTEREST EXPENDED			Other expenditure includes:		
Interest on deposits	3,480,994	2,210,925	Brokerage on India Development Bonds	0	105,900
Interest on Reserve Bank of India/ Inter-Bank borrowings	1,360,767	1,281,529			
Others	298,518	306,322			
	<u>5,140,279</u>	<u>3,798,776</u>			

**NOTES APPENDED TO AND FORMING PART OF THE ACCOUNTS OF THE
INDIAN BRANCHES FOR THE YEAR ENDED MARCH 31, 1993**

1. Principal Accounting Policies

General

The accompanying financial statements have been prepared on the historical cost basis except where stated otherwise and conform to the statutory provisions and practices prevailing in the country.

Transactions involving Foreign Exchange

- Foreign currency assets and Liabilities are translated on the Balance Sheet date at the rates notified by FEDAI, except Foreign Currency Non-Resident Account balances which are valued at the relevant rates specified by the Reserve Bank of India.
- Contingent liabilities on account of outstanding foreign exchange contracts have been reported at the contracted rates; however, outstanding foreign exchange contracts have been revalued on the Balance Sheet date at the rates notified by FEDAI and the resulting losses/profits on revaluation have been included in the Profit and Loss Account.
- Income and expenditure items have been accounted for at the exchange rates ruling on the date of transaction.

Investments

- "Current Investments" have been valued at the lower of cost and market value in aggregate. Treasury Bills and Commercial Paper have been valued at book value i.e. face value less unamortised discount or plus unamortised premium, to maturity. In the absence of an active market, the market value for public sector bonds is based on yield to maturity, having regard to recent market transactions by the Bank with an appropriate discount on a prudent basis.
- "Permanent Investments", including shares in subsidiaries and associates, have been valued at cost.

**NOTES APPENDED TO AND FORMING PART OF THE ACCOUNTS OF THE
INDIAN BRANCHES FOR THE YEAR ENDED MARCH 31, 1993****Advances**

- a. Advances are net of provisions for identified bad and doubtful debts, which are made based on a periodic review of advances and are to the satisfaction of the Auditors.
- b. Provisions have been made on a gross basis. Tax relief which will be available when the advance is written off will be accounted for in the year of write-off. Such future tax relief has been shown by way of information as a contra item in the Balance Sheet.

Fixed Assets

- a. Fixed assets have been accounted for at the historical cost except premises which have been revalued are accounted for at the values determined on the basis of such revaluation by professional valuers. Surplus on revaluation has been credited to "Property Revaluation Reserve".
- b. Depreciation has been provided for on the straightline rates prescribed by Schedule XIV of the Companies Act, 1956.
- c. Depreciation in respect of revalued assets is provided for on the revalued amount and charged to the Profit and Loss Account.

Income Recognition

Interest income is recognised on an accrual basis except in the case of non-performing advances where it is taken to the Profit and Loss Account on receipt.

Staff Benefits

Gratuity and pension benefits to staff have been fully provided for based on an actuarial valuation of the liabilities.

Net Profit

The net profit disclosed in the Profit and Loss Account is after:

- i. Provisions for taxes on income using the "liability method"
- ii. Provision for doubtful advances
- iii. Adjustments to the value of investments in Government and other approved securities in India, and other investments, valued as stated above
- iv. Other usual or necessary provisions.

2. Other Notes

- a. The Bank has received a claim, aggregating approximately Rs. 5,065 Million, from the National Housing Bank ("NHB"). The claim arises out of certain cheques drawn by NHB in favour of the Bank, the proceeds of which were credited into the account of one of the customers of the Bank.

During the year, the Bank received a directive from the Reserve Bank of India ("RBI"), directing it to make a payment of NHB in the amount of approximately Rs. 5,065 million. On 4 November 1992, the Bank made the payment to NHB under protest, without admission of liability, and subject to an agreement with NHB, entered into on the same date, providing for arbitration of the disputes between the parties. The RBI, which is NHB's parent, has confirmed, in writing, that it will ensure that NHB meets its liabilities under this arbitration agreement, including repaying the Bank if NHB loses the arbitration. The Bank has received firm legal advice and based on that advice no provision has been made in respect of the claim or the amount paid to NHB. The arbitration is currently in progress.

- b. In May 1991, the Bank purchased Rs. 285 Million 9.25% GOI 1992 Loan Stock from a bank, for which it received a Subsidiary General Ledger transfer ("the SGL") from that bank. On 15th November 1991, the Bank sold the SGL to Standard Chartered Bank ("SCB"). SCB subsequently issued a writ in London against the Bank alleging that the transaction was for the purchase from the Bank of the underlying loan stock and claiming Rs. 285 million, plus interest at 20% per annum from 15 November 1991. The parties subsequently reached an agreement, confirmed in a consent order of the English High Court, for the dispute to be arbitrated in India. The Bank believes no loss will result from the arbitration.

- c. In mid-1991 certain amounts had been transferred from the non-convertible rupee account of an overseas Bank belonging to the former Soviet Union to the convertible rupee account of a UK based bank. In making these transactions it would appear that the provisions contained in the Exchange Control regulations were not complied with.

The Bank on its own initiative brought these transactions to the attention of the RBI in January 1993 and offered to remit the foreign exchange equivalent. These funds amounting to USD 18.33 Million (INR 574.82 Million) have since been received. These funds shall qualify for capital adequacy two years from the date of the inward remittance. The balance amount of USD 7.94 Million is to be remitted.

- d. The Bank purchased certain shares for Rs. 24 Million from a broker in settlement of outstanding claims of Rs. 30 Million (face value) arising from non delivery of certain securities. These shares were in the custody of the Bank prior to their purchase. The shares were subsequently sold for Rs. 29 Million. At a later date the broker was notified as a "notified person" under the Special Court (Trial of Offences relating to Transactions in Securities) Act, 1992. Both, the purchase and the sale transactions were entered into much prior to the broker being notified. Legal opinion obtained by the Bank confirms that the transactions are valid and proper.
- e. During the year, the Bank had transactions (ready forward deals and portfolio management scheme) in line with market practice, though not wholly in accordance with RBI guidelines. These have since been discontinued.

**NOTES APPENDED TO AND FORMING PART OF THE ACCOUNTS OF THE
INDIAN BRANCHES FOR THE YEAR ENDED MARCH 31, 1993**

- f. The Special Audit Report had pointed out certain erroneous entries amounting to Rs. 2,808 Million which resulted in the understatement of the statutory reserve ratios from April 1992 to January 1993. These have since been rectified.
- g. The Bank purchased 9% NHPC bonds of face value Rs. 162 Million from certain connected counterparties under purchase and resale agreements. The counterparties failed to honour their obligations to repurchase. The Bank had taken delivery of the bonds and the interest warrant payable prior to the agreed resale date, but not the subsequent interest warrants, which the counterparties have refused to deliver. The matter is now being pursued legally and suits have been filed against the counterparties and NHPC (the issuers of the bonds) for recovery of the warrants. The Bank has strong legal opinion supporting its case.
- h. The further consequential impact, if any, arising out of problems in the financial market are currently not ascertainable and will therefore be accounted for if and when considered necessary.
- i. The Bank has accounted for on 31st March 1993, a revaluation of its property at open market value (existing use basis), on the basis of valuation made by professional valuers. The resultant increase in book value of Rs. 1,628 Million has been credited to the "Property Revaluation Reserve".
- j. Head Office General Charges Reserve consists of amounts payable to Head Office for allocated charges which the Head Office intends to retain in India to meet capital adequacy requirements.

3. Previous Year's Figures

Previous year's figures have been reclassified where necessary to facilitate comparison.

R. SRINIVASAN
General Manager, Corporate Affairs

B. McCANCE
General Manager, South Asia

**AUDITORS' REPORT ON THE ACCOUNTS OF THE INDIAN BRANCHES OF
ANZ GRINDLAYS BANK PLC UNDER SECTION 30 OF
THE BANKING REGULATION ACT, 1949**

We have examined the Balance Sheet of the Indian Branches of ANZ Grindlays Bank plc (Incorporated in U.K. with Limited Liability) as at 31st March 1993 and the related Profit and Loss Account for the year ended in which are incorporated the returns for one branch not visited by us due to the disturbed conditions prevailing in the area.

In accordance with the provisions of Section 29 of the Banking Regulation Act, 1949 read with the provisions of Sub-Section (1), (2) and (5) of Section 211 and Sub-Section (5) of Section 227 of the Companies Act, 1956, the Balance Sheet and Profit and Loss Account, together with the notes thereon, are not required to be and are not drawn up in accordance with Schedule VI of the Companies Act, 1956. The accounts are, therefore, drawn up in conformity with Forms A and B of the Third Schedule of the Banking Regulation Act, 1949.

We report that, read with the foregoing remark:

- a. We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit, and have found them to be satisfactory.
- b. The transactions other than those referred to in Note 2(e) which have come to our notice have been, in our opinion, within the powers of the Bank.
- c. In our opinion, proper books of account as required by law have been kept by the Bank so far as appears from our examination of those books.
- d. The Balance Sheet and Profit and Loss Account of the Indian Branches of the Bank dealt with by this report are in agreement with the books of account.
- e. We are unable to form an opinion on the outcome of the following matters, referred to in Notes 2(a) and 2(b) respectively, and consequently their effect on the results of the Bank for the year:
 - i. The amount of Rs. 5,065 Million paid by the Bank under protest to the National Housing Bank (NHB) relating to a dispute. The matter has been referred to arbitration.
 - ii. A claim of Rs. 285 Million with interest of 20% per annum lodged by Standard Chartered Bank (SCB) relating to a dispute.
- f. The book entries of Rs. 2,808 Million not supported by transactions, referred to in Note 2(f), were prejudicial to the interest of the Bank for the reasons stated in the note.
- g. In our opinion and to the best of our information and according to the explanations given to us the said accounts subject to the adjustments that might become necessary if the outcome of the matters referred to in Paragraphs (e) and (f) and Note 2(h) had been known, give the information required by the Companies Act, 1956, in the manner so required for Banking Companies, and on such basis the said Balance Sheet gives a true and fair view of the state of affairs of the Indian Branches of the Bank as at 31st March, 1993 and the Profit and Loss Account gives a true and fair view of the profit of the Indian Branches for the year then ended.

S. R. BATLIBOI & CO.
Chartered Accountants
Per **N. H. MIRZA**
A Partner

Bombay, 16th September, 1993

Distribution Pattern of Lift Irrigation in India

An Analysis by Hydro-Geological Regions

R Maria Saleth

M Thangaraj

Investment on minor irrigation during the Eighth Plan is almost equal to the total public sector investment on minor irrigation development during all the previous plans combined. More than three-fourths of the minor irrigation potential expected to be created during the plan period is based on lift irrigation. Lift irrigation as a drought proofing mechanism is expected to make an unprecedented expansion during the Eighth Plan.

This paper elucidates the distribution pattern of India's lift irrigation economy in terms of water and power sources as well as ownership, both within and across the four major hydro-geological regions of India, and brings forth certain theoretical and policy implications relevant to the current irrigation policies.

I Introduction

THE Eighth Plan envisages to invest Rs 140 billion—Rs 75 billion of plan outlay, Rs 51 billion of institutional funds, and Rs 14 billion of private finance to create some 12 million hectare (mha) of minor irrigation potential, 10 mha of ground water irrigation potential and 2 mha of surface water-based irrigation potential. The magnitude of this proposal can be gauged by the fact that it is only slightly less than the total public sector investment on minor irrigation development during all the previous plans combined. Given the current thrust on minor irrigation development and the fact that more than three-fourth of the created irrigation potential in the minor irrigation segment is based on lift irrigation, it is of current interest to have a clear analysis of the installation, ownership, and utilisation pattern of the already existing irrigation assets such as wells/tube-wells and pumpsets and their efficiency and equity implications. Unfortunately, barring few village level studies, [Kolavalli and Athecq 1991 and Shah and Raju 1988] and national state level studies focused on particular lifting mode such as tube-wells [Dhawan 1982 and 1990], there is a lamentable dearth of macro studies focusing on the distribution patterns of irrigation assets across the hydro-geologic regions/states. Admittedly, lack of research in this respect is largely an outcome of the non-availability of current national level data on many crucial aspects of our lift irrigation.

Utilising the data from the 31st Round of National Sample Survey (NSS) on the 'Use of Irrigation in Household Holdings' carried out by the National Sample Survey Organisation (NSSO) during the agricultural year 1976-77 and reported in NSSO (1984 and 1985), this paper attempts to study (i) the distribution pattern of lift irrigated area by lift ownership types, farm sizes, and power sources, (ii) installation, power use, and horsepower (HP) capacity of irrigation pumpsets, (iii) the nature, magni-

tude, and implications of the phenomenon of 'pumpset rentals', and (iv) to indicate certain theoretical and policy implications of current relevance to our lift irrigation economy. Since water resource potential and irrigation needs as determined by agro-climatic factors vary across the hydro-geological regions, the lift irrigation economy is analysed based on the four broader hydro-geological regions, i.e., the Indo-Gangetic region with the states of Bihar, Haryana, Himachal Pradesh, Punjab, and Uttar Pradesh; the deltaic region containing the states of Orissa and West Bengal; the hard-rock region with Andhra Pradesh, Gujarat, Karnataka, Madhya Pradesh, Maharashtra, Rajasthan, and Tamil Nadu, and the mountainous region with Assam, Jammu and Kashmir, Kerala, Manipur, and Tripura.

II Lift Irrigation Economy

Massive programme of rural electrification and an extensive resource commitment both by the states and centre for promoting ground water exploitation to make Indian agriculture drought-proof led to a rapid growth of the lift irrigation [Government of India 1982]. As of 1989-90, there were about 8.2 million electric and 4.4 million diesel pumpsets installed across all the three modes of lift irrigation, viz., tube-wells, dugwells, and others (i.e., surface water-based lift irrigation schemes). These pumpsets were distributed across some 4.8 shallow tube-wells located mainly in the Indo-Gangetic and deltaic regions, 9.5 million dugwells located mostly in the hard-rock region, and 0.17 million surface water-based lifting schemes located mainly in the deltaic and mountainous regions [Government of India 1988 and Dhawan 1990]. In addition to these energised lifts, traditional lifts based on human and animal power, though waning in significance over years in view of their gradual replacement by modern lifts, remained quite significant especially in areas dominated by dugwells and

surface water-based lifting schemes. The wells with traditional lifts can be expected to be around 1.7 million at present.¹ While most of the irrigation pumpsets are privately owned, public and co-operative ownership of pumpsets are also quite significant especially in the Indo-Gangetic plains and the deltaic regions. For instance, more than 80 per cent of the national total of 0.06 million public tube-wells are located in the four Indo-Gangetic states of Uttar Pradesh, Bihar, Haryana, and Punjab [Pathak 1988, p 82].

There are marked inter-regional and intra-regional disparities in the installation of both electric and diesel pumpsets. For instance, more than 50 per cent of the national total of electric pumpsets were accounted by just three states, i.e., Tamil Nadu, Andhra Pradesh and Maharashtra and the share of Tamil Nadu alone was almost 20 per cent. Likewise, more than 50 per cent of the national total diesel pumpsets were accounted by six states, i.e., Uttar Pradesh, Maharashtra, Madhya Pradesh, Andhra Pradesh, and Bihar. Notably, Uttar Pradesh alone accounted for over one third of the national total of diesel pumpsets [Government of India 1988]. The total electric power consumption by irrigation pumps during 1989-90 has been estimated to be about 34.4 billion kilowatt hours representing about 16 per cent of total national power consumption [Central Electricity Authority 1985, p 51]. The total diesel consumption for water lifting can be reckoned conservatively at 6 billion litres.²

Up to the Seventh Plan, the total public sector investment including institutional funds in the form of credit on minor irrigation development was of the order of Rs 143 billion [Dhawan 1990, p 10]. This does not, however, include either the private investment on water extraction structures which has been very substantial over the plan periods or the public investment on rural electrification programmes. For instance, the private investment just during the Seventh Plan period (1985-90) has been of the order of Rs 20 billion. The National Council

of Applied Economics Research (NCAER) has estimated that irrigation equipment used to account for over 16 per cent of the total national farm assets [NCAER 1980]. This proportion, in context of the Indo-Gangetic states, varied from 14 per cent in Uttar Pradesh to 40 per cent in Punjab [Saleth 1992].

III Net Irrigated Area under Lift Irrigation

Table 1 showing the distribution of net irrigated area under lift irrigation (NIALI) by ownership types and power sources indicates how the distribution pattern varies within and across the hydro-geological regions during 1976-77, the sample year for the NSS survey. Of the total NIALI of 17.6 mha, about 58 per cent was accounted by the Indo-Gangetic region, 37 per cent was accounted by the hard-rock region, and the remaining 5 per cent was jointly accounted by the deltaic and mountainous regions. This shows the dominant position of the Indo-Gangetic region in lift irrigation thanks essentially to its favourable hydro-geological potential. The distribution of NIALI within each hydro-geological region depicts again an unequal pattern as the respective regional total of NIALI was concentrated in few states in each region. For instance, within the Indo-Gangetic region, Uttar Pradesh accounted for over 60 per cent

of the regional total NIALI. Likewise, the hard-rock region was dominated by the three states, viz, Rajasthan, Maharashtra, and Tamil Nadu, accounting together over half of the regional total NIALI. Similarly, West Bengal and Kerala dominated the deltaic and the mountainous regions respectively.

Regarding the distribution of NIALI by lift ownership types, privately owned lifts dominated across all the four hydro-geological regions. Jointly owned private lifts were, however, significant in the hard-rock region accounting about 29 per cent of the total NIALI. In the deltaic and mountainous regions, on the other hand, government-owned lifts had the second highest share in the regional total of NIALI. In fact, in states like Himachal Pradesh and Jammu and Kashmir, the NIALI under government owned lifts dominated over those under other lift ownership types. Nevertheless, the co-operatively owned lifts had been a significant proportion of the total NIALI in the mountainous regions. As to the relative regional share of total NIALI under each lift ownership type, of the total NIALI under singly owned private lifts, about 60 per cent was located in the Indo-Gangetic region, 34 per cent was located in the hard-rock region, and the share of the deltaic and mountainous regions stood only at 4 and 2 per cent, respectively. On the other hand, while about 54 per cent of the NIALI under jointly owned private lifts and 61 per cent of the NIALI under co-operatively owned lifts were

located in the hard-rock region, almost 83 per cent of the NIALI under government owned lifts were in the Indo-Gangetic region.

About the distribution of NIALI by power sources, while energised lifts (by electricity and diesel) dominated the Indo-Gangetic and hard-rock regions, animal and human-powered lifts dominated the deltaic and mountainous regions. The major reasons for this divergence in the regional pattern of power use across the regions are bottlenecks in electricity generation and distribution, fragmented holdings, and the nature and source of water supply particularly the availability of surface water and ground water at lower depth which lend technical viability for the operation of animal and human-powered lifts. Another notable aspect is that while human-powered lifts were the dominant mode in the mountainous and deltaic regions, animal-driven lifts were quite substantial in the hard-rock region especially in Madhya Pradesh and Rajasthan. Even though there is not much variation in the share of lifts based on electric, diesel, and animal power in the hard-rock region, the distribution is, however, skewed in favour of diesel power in the Indo-Gangetic region particularly in Punjab, Bihar, and Uttar Pradesh. However, there are notable exceptions to this broader pattern of power base of lifts. For instance, even though 60 per cent of the NIALI in the mountainous region as a whole was under human-powered lifts, about 78

TABLE 1: NET IRRIGATED AREA (NIA) UNDER LIFT IRRIGATION, 1976-77

Hydro-Geological Regions/States	NIA under Lift Irrigation ('00)	Distribution of NIA by Lift Ownership (Per Cent)				Distribution of NIA by Power Source (Per Cent)				
		Government	Co-operative	Private Joint	Private Single	Electricity	Diesel	Wind	Animal	Human
Indo-Gangetic region	102675	7.65	0.29	15.29	77.06	36.97	41.64	0.03	10.59	10.77
Bihar	14458	4.45	0.12	7.73	87.70	33.12	39.22	0.03	3.25	24.38
Haryana	8678	2.03	0.64	33.21	64.12	60.32	33.93	0.00	5.75	0.00
Himachal Pradesh	46	41.30	0.00	34.78	23.92	93.48	4.35	0.00	2.17	0.00
Punjab	16977	0.81	0.13	23.29	75.76	31.88	65.11	0.00	3.00	0.01
Uttar Pradesh	62516	10.53	0.33	12.35	76.79	35.97	36.92	0.04	15.03	12.04
Deltaic region	6557	11.26	0.23	4.56	83.95	9.76	31.51	0.08	0.16	58.49
Orissa	1752	6.16	0.51	3.89	89.44	7.08	14.61	0.00	0.06	78.25
West Bengal	4805	13.11	0.12	4.81	81.96	10.74	37.67	0.10	0.19	51.30
Hard-rock region	64435	1.07	0.88	29.48	68.57	38.74	26.23	0.08	32.20	2.75
Andhra Pradesh	7712	3.13	0.78	29.54	66.55	35.44	25.12	0.04	27.20	12.20
Gujarat	9476	0.98	0.91	34.74	63.34	34.36	57.97	0.02	7.52	0.13
Karnataka	3778	3.71	0.03	17.23	79.03	58.28	18.00	0.00	17.71	6.01
Madhya Pradesh	7159	0.96	0.00	22.59	76.38	27.83	25.91	0.04	44.17	2.05
Maharashtra	10406	0.39	3.82	22.12	73.66	49.21	28.82	0.00	21.29	0.68
Rajasthan	15376	0.31	5.12	40.39	54.18	18.61	18.42	0.08	62.60	0.29
Tamil Nadu	10525	0.54	0.04	25.04	74.39	64.37	10.51	0.25	21.70	3.17
Mountainous region	2101	4.66	2.66	1.95	89.53	18.51	18.18	0.00	2.62	60.69
Assam	29	3.45	0.00	0.00	93.10	3.15	3.45	0.00	0.00	93.10
Jammu and Kashmir	89	77.53	0.00	0.00	22.47	77.53	19.46	0.00	3.00	0.01
Kerala	1898	0.68	2.96	2.16	94.20	16.11	17.54	0.00	2.74	63.28
Manipur	32	18.75	0.00	0.00	6.25	0.00	93.75	0.00	0.00	6.25
Tripura	53	16.98	0.00	0.00	83.02	13.21	11.32	0.00	0.00	75.47
Total	175768	5.17	0.53	19.93	74.35	36.37	35.33	0.05	18.04	10.21

Note: The percentage in some categories do not sum to 100 in view of the existence of some cases unrecorded for the attributes in each category.
Source: NSSO (1984 and 1985).

per cent of NIAI.I in Jammu and Kashmir was under electric-powered lifts and 94 per cent of the NIAI.I in Manipur was under diesel-powered lifts.

It should be noted that although the NIAI.I under wind-powered lifts formed only less than one-tenth of a per cent at the national level, it has been quite significant in Tamil Nadu, Rajasthan, and Madhya Pradesh. Of the total NIAI.I under wind-powered lifts, 56 per cent were located in the hard-rock region while the Indo-Gangetic region had 38 per cent. Generally, the technical viability of wind-powered lifts hinges not only on the availability of adequate wind but also on favourable hydro-geological conditions as there is an obvious upper limit for the depth from which wind-powered equipment can lift water efficiently.

Table 2 shows the distribution of NIAI.I by lift types and farm sizes. One immediate pattern observed across all the hydro-geological regions is that while medium farms accounted for the major share of NIAI.I under modern lifts like electric and diesel pumpsets, the marginal and small farms accounted for the major share of NIAI.I under traditional lifts based on human and animal power. However, there are exceptions to this general trend. For instance, in the deltaic region and also, to some extent, in the mountainous region, the marginal and small farms had among them the highest share of NIAI.I under modern energised lifts. Likewise, in the hard-rock region, it is the medium farms that had the highest share in the NIAI.I under traditional lifts. This is

particularly evident in Madhya Pradesh, Maharashtra and Rajasthan. Although the large farms had a very low share in the total NIAI.I under both types of lifts in all the four regions, their share was fairly high at the level of individual states. For instance, their share was around one-fifth in the case of Haryana, Punjab, Andhra Pradesh, and Rajasthan and about one-third in the case of Karnataka, Madhya Pradesh, and Maharashtra. In terms of equity in modern lift irrigation, the states located in the deltaic and mountainous regions appeared to have done better than the states located in the other regions. It can be noted that this equity effect should be attributed more to the water resource potential, and topography and soil features than to any deliberate policies.

Regarding the relative share of the four hydro-geological regions in the total NIAI.I under both types of lifts, while the Indo-Gangetic region accounted for about two-third of the total NIAI.I under modern lifts and one half of the total NIAI.I under traditional lifts, the hard-rock region accounted for about one-third of the total NIAI.I under modern lifts and over half of the total NIAI.I under traditional lifts. The shares of the other two regions in the total NIAI.I under both types of lifts were rather insignificant. Overall, the Indo-Gangetic region though dominated in the total NIAI.I under modern lifts, it has very substantial share also in NIAI.I under traditional lifts particularly in Uttar Pradesh and Bihar. That is, despite substantial expansion of tube-well irrigation, traditional lifts based on human and

animal power still hold sway in the eastern part of India mainly due to the non-viability of tube-wells and other capital intensive lifts in view of widespread farm fragmentation. Excessive farm fragmentation, lower capital availability, and good hydro-geological potential in these regions have a major role in supporting traditional lifts despite their gradual replacement by modern ones. However, the replacement of traditional lifts by modern ones is nearly total in states like Haryana and Punjab in the Indo-Gangetic region, and Gujarat and Karnataka in the hard-rock region.

IV Distribution Pattern of Irrigation Pumpsets

Table 3 depicts the distribution pattern of irrigation pumpsets by their water source, energy usage, and IIP capacity. Overall, of the total 6.4 million pumpsets, 57 per cent were installed with dugwells, 34 per cent with the tube-wells, and only 8 per cent with others, i.e., surface-based lift irrigation systems. Regarding pumpset distribution within and across the hydro-geological regions, it is apparent that while the majority of the pumpsets, i.e., 62 per cent, were located in the hard-rock region, only 33 per cent of them were located in the Indo-Gangetic region. The deltaic and the mountainous regions present entirely a different picture as the major proportion of their total pumpsets were installed in surface water-based lift irrigation systems. Although over

TABLE 2: DISTRIBUTION PATTERN OF LIFT IRRIGATED AREA

Hydro-Geological Regions/States	NIA under Modern Lifts ('00)	Modern Lift Irrigated Area by Farm Sizes (Per Cent)				NIA under Traditional Lifts ('00)	Traditional Lift Irrigated Area by Farm Sizes (Per Cent)			
		Marginal	Small	Medium	Large		Marginal	Small	Medium	Large
Indo-Gangetic region	80715	14.21	20.24	57.19	8.36	21929	33.70	31.99	32.78	1.52
Bihar	10459	19.85	22.28	50.97	6.92	3995	36.72	31.72	29.58	1.99
Haryana	8179	2.06	8.14	69.01	20.79	499	2.40	18.24	75.75	3.61
Himachal Pradesh	45	2.33	12.79	84.89	0.00	1	0.00	0.00	100.00	0.00
Punjab	16465	2.67	8.77	71.46	17.11	512	2.36	11.18	85.59	0.88
Uttar Pradesh	45567	19.37	26.26	51.06	3.32	16922	34.91	33.29	30.48	1.33
Deltaic region	2706	22.25	27.01	45.31	5.43	3846	28.32	30.92	38.43	2.34
Orissa	380	18.93	21.05	31.31	28.71	1372	8.78	12.80	75.15	3.28
West Bengal	2326	24.56	29.64	45.81	0.00	2474	16.66	17.00	66.35	0.00
Hard-rock region	41844	8.86	14.46	57.86	18.82	22545	17.41	20.39	55.74	6.46
Andhra Pradesh	4670	11.40	16.26	48.98	23.37	3039	26.86	24.72	44.23	4.20
Gujarat	8749	8.51	16.17	65.46	9.87	725	21.41	36.83	40.08	1.69
Karnataka	2882	5.54	10.38	54.63	29.46	896	21.75	23.95	48.78	5.53
Madhya Pradesh	3847	2.59	7.54	56.45	33.43	3309	9.69	18.78	64.63	6.91
Maharashtra	8120	5.91	9.74	54.07	30.29	2286	23.99	10.34	58.86	6.82
Rajasthan	5695	3.19	10.48	67.44	18.90	9672	21.28	21.00	53.98	3.75
Tamil Nadu	7841	19.55	26.39	50.60	3.46	2618	48.77	25.82	25.20	0.22
Mountainous region	771	29.83	31.78	38.13	0.26	1330	64.59	22.63	11.35	1.43
Assam	2	50.00	50.00	0.00	0.00	27	14.81	22.22	7.41	55.56
Jammu and Kashmir	81	15.22	21.02	63.77	0.00	8	20.00	70.00	10.00	0.00
Kerala	645	30.33	29.95	39.42	0.30	1253	59.81	34.53	5.50	0.17
Manipur	30	30.00	56.66	13.34	0.00	2	0.00	100.00	0.00	0.00
Tripura	13	23.81	39.29	36.91	0.00	40	32.50	27.50	40.00	0.00
Total	126036	12.70	18.54	57.04	11.72	49650	27.73	26.39	42.06	3.82

Note: See Table 1.

Source: See Table 1.

54 per cent pumpsets in the mountainous region were installed with dugwells, the number of pumpsets installed in surface water-based irrigation systems has been quite substantial. Notably, the type of wells being constructed in the four regions is broadly in consistent with the hydro-geological conditions of the respective region. That is, while the hard-rock region and, to some extent, the mountainous region can permit the construction of dugwells due to hard underneath, the alluvial nature of the sub-strata in the Indo-Gangetic and deltaic regions cannot support dugwells beyond certain depth. Moreover, the excess supply of ground water particularly at lower depths in the latter regions also obviates the need for dugwells and favours instead tube-wells or surface water-based lift irrigation systems.

The Indo-Gangetic region accounted for about 86 per cent of the total pumpsets installed with tube-wells and the hard-rock region accounted for over 95 per cent of those installed with dugwells. Besides, the latter region also accounted for over 56 per cent of the total pumpsets installed in surface water-based lifting schemes. This indicates the relative significance of supplementary or conjunctive water use practices in the lift-irrigated segment of the hard-rock region thanks to the overall water scarcity evident in this region and farmers' effort to substitute costly ground water by cheaper surface water from ponds, streams, and lakes wherever and whenever feasible. This is in contrast to the almost exclusive reliance of lift irrigation in the Indo-Gangetic region on

ground water through tube-wells and that of the deltaic and mountainous region on surface water bodies through surface water-based lifts. While such a dependence of the latter regions is consistent with their relatively abundant water supply, the water scarce hard-rock region should naturally try to optimise water utilisation from all available water sources.

A cursory comparison and collation of information in Tables 1 and 3 will show that even though the Indo-Gangetic region had only one-third of the total pumpsets, it accounted for well over 58 per cent of the total NIAI. But, the hard-rock region with over 62 per cent of the total pumpsets accounted for just 37 per cent of the NIAI. This incongruity can be explained by considering the type of wells with which the pumpsets are installed and their relative water delivery capacity as affected by the hydro-geology of the two regions. Recall that 91 per cent of the pumpsets in the Indo-Gangetic region were installed with tube-wells known for higher water extraction and discharge capacity but 88 per cent of the pumpsets in the hard-rock region were installed with dugwells. Notice that while tube-wells can operate continuously as it takes water at deeper depths, dugwells cannot do so as they should be allowed sufficient time to collect water before pumping. Consequently, the command area per well will be much higher in the Indo-Gangetic region as compared to the hard-rock region.

In terms of their power usage, the pumpsets were more or less equally distributed be-

tween electric and diesel power. Of the total pumpsets powered by electric energy, the hard-rock region accounted for over 74 per cent whereas the Indo-Gangetic region accounted for only 24 per cent. Within the hard-rock region, electric-powered pumpsets were very significant in Andhra Pradesh, Karnataka, Tamil Nadu, Maharashtra, and Rajasthan. Likewise, of the total pumpsets operated with diesel power, over 50 per cent were located in the hard-rock region as against 41 per cent in the Indo-Gangetic region. Notably, about 0.63 per cent of the total pumpsets are operated by both electricity and diesel. This can be considered as a crude measure of the extent to which diesel pumps are used for stand-by irrigation, i.e., the reliance on diesel pumpsets whenever there is non-availability or shortage of electric power. Such stand-by irrigation is substantial in Bihar, West Bengal, and Tripura all of which are known for their perennial power shortage and load-shedding problems. Moreover, the spread of diesel pumpset usage also indicates the extent to which farmers can bypass well-spacing regulations implemented indirectly through credit, and electric connection and power tariff policies. Since the number of diesel pumpsets also includes those installed with shallow tube-wells located in the canal commands to supplement erratic and irregular canal water supply, it also has profound implications for conjunctive and supplemental use of water. In this sense, the stand-by irrigation system is not just to tide over temporary or prolonged electric power shortage but also to

TABLE 3: TOTAL PUMPSETS REPORTED AND THEIR DISTRIBUTION

Hydro-Geological Regions/States	Total Pumpsets Reported ('00)	Pumpset Distribution by Water Source (Per Cent)			Pumpset Distribution by Power Use (Per Cent)			Pumpset Distribution by Horse Power (Per Cent)		
		Wells	Tubewells	Others	Electricity	Diesel	Both	Below 3 HP	3 to 5 HP	Over 5 HP
Indo-Gangetic region	20748	5.36	90.67	3.97	37.30	61.89	0.81	6.79	7.22	83.58
Bihar	3547	12.66	71.55	15.79	46.88	50.16	2.96	34.40	23.23	42.37
Haryana	2914	2.30	97.29	0.41	60.23	38.37	1.41	0.00	7.28	87.89
Himachal Pradesh	21	0.00	100.00	0.00	90.48	9.52	0.00	0.00	0.00	80.95
Punjab	5544	1.79	97.96	0.25	29.76	70.04	0.20	0.31	5.65	91.45
Uttar Pradesh	8722	5.47	91.83	2.71	30.39	69.47	0.14	0.08	0.52	96.69
Deltaic region	2130	3.10	43.99	50.34	4.50	93.43	2.07	2.84	6.26	55.15
Orissa	171	21.05	2.34	76.61	14.04	85.96	0.00	2.22	11.11	63.33
West Bengal	1959	1.53	47.63	50.84	3.68	94.08	2.25	2.89	5.86	54.49
Hard-rock region	39744	87.47	4.91	7.50	60.48	39.07	0.45	2.93	26.31	66.54
Andhra Pradesh	5971	85.45	5.24	6.31	58.60	41.40	0.00	4.42	25.63	69.19
Gujarat	4933	97.53	1.50	0.97	19.31	80.69	0.06	3.37	3.41	90.03
Karnataka	2669	90.11	0.82	9.07	71.52	23.94	1.54	12.80	34.40	52.80
Madhya Pradesh	3423	68.54	1.75	29.71	44.43	55.57	0.00	1.89	26.82	58.88
Maharashtra	7424	87.89	0.11	12.00	59.52	39.15	1.02	1.49	33.66	52.69
Rajasthan	4228	87.73	11.26	5.01	59.91	39.85	0.21	0.40	12.13	84.58
Tamil Nadu	11096	90.44	7.37	2.19	82.20	17.34	0.46	1.65	35.00	63.35
Mountainous region	1083	54.76	0.46	41.14	38.11	60.85	0.74	25.83	31.37	24.08
Assam	2	0.00	0.00	100.00	0.00	100.00	0.00	0.00	0.00	0.00
Jammu and Kashmir	6	50.00	0.00	50.00	16.67	83.33	0.00	0.00	0.00	83.33
Kerala	1038	56.65	0.29	43.06	39.98	59.41	0.58	26.88	31.98	23.70
Manipur	9	0.00	0.00	100.00	0.00	100.00	0.00	10.00	0.00	40.00
Tripura	28	7.14	7.14	85.72	0.00	92.86	7.14	0.00	28.57	21.43
Total	63705	57.35	34.07	8.40	50.68	48.69	0.63	4.57	19.42	71.00

Note: See Table 1.

Source: As in Table 1.

provide supplementary irrigation in the event of canal water scarcity.

Coming to the regional pattern of power use by irrigation pumpsets, Table 3 clearly shows that diesel-powered pumpsets were either predominant or remained substantial across all the four hydro-geological regions. The reliance on diesel power for pumpset operations ranged from 93 per cent in the deltaic region to 39 per cent in the hard-rock region. The states in the mountainous region rely very heavily on diesel power for their pumpset operation. In the hard-rock region, about 80 per cent of the pumpsets in Gujarat were operated by diesel power. Similarly, in the Indo-Gangetic region, almost 70 per cent of the pumpsets in Punjab and Uttar Pradesh were operated by diesel power. In all the states in the Indo-Gangetic region except Haryana and Himachal Pradesh, diesel was the predominant source of power for pumpset operation. On the other hand, in the hard-rock region, in all states except Gujarat and Madhya Pradesh, electric-powered pumpsets dominated over those powered by diesel energy.

As to the overall distribution of pumpsets by their HP capacity, well over two-third of the total pumpsets were of over 5 HP capacity. However, at the regional level, pumpsets with the capacity of less than 5 HP were quite significant in the mountainous and the hard-rock regions. While a quarter of the pumpsets in the mountainous region were of less than 3 HP capacity, about a quarter of the pumpsets in the hard-rock region were of 3-5 HP capacity. In the Indo-Gangetic region, on the other hand, 83 per cent of the pumpset had over 5 HP capacity. Although over one-third of the pumpsets in the deltaic region were not recorded for their HP capacity in the NSS survey, pumpsets over 5 HP capacity had a commanding position in this region.

The relative regional share of pumpsets in each of the three capacity categories shows that the hard-rock region had the largest share both in the over 5 HP and 3-5 HP categories whereas the Indo-Gangetic region had the largest share in the below 3 HP category. The concentration of higher HP capacity pumps in the hard-rock region particularly in Tamil Nadu, Maharashtra, Karnataka, and Gujarat is understandable in view of the increasing depth of ground water table here.³ The concentration of below 3 HP pumps in Bihar and, to some extent, in eastern Uttar Pradesh can be explained by the wider prevalence of smaller and highly fragmented farms. On the other hand, the extreme concentration of pumpsets with over 5 HP capacity in Punjab, Haryana, and western Uttar Pradesh is due to the prevalence of water intensive cropping pattern demanding higher water delivery capacity.

Table 4 shows the distribution of modern lift ownership by farm size and use type

both within and across the four regions. Consistent with the distribution of NIALI by farm size discussed earlier, the pumpset distribution pattern also appears to be skewed in favour of the medium farms in all regions except the mountainous region. This is in contrast to the ownership pattern of traditional lifts where the distribution favours small and marginal farms. Interestingly enough, the pumpset ownership pattern evident in Table 4 adds few important qualifications to the established notion of a positive association between farm size and pumpset ownership [Shah 1985 and Government of India 1886]. Firstly, in all the regions except the mountainous region, such a positive association is valid only up to the medium-sized farms beyond which the association becomes negative. And, secondly, the pumpset distribution in the mountainous region suggests instead a negative association between farm size and pumpset ownership! One possible explanation for this negative association in the mountainous region can be that while smaller farms are focused on seasonal crops requiring frequent irrigation, larger farms are focused on plantation crops not requiring that much irrigation. In other words, the overall equity in pumpset ownership is relatively stronger in the mountainous region and, to some extent, in the deltaic region as compared to the other two regions. However, the equity aspect is relatively stronger in Bihar and Uttar Pradesh in the Indo-Gangetic region

and Tamil Nadu and Andhra Pradesh in the hard-rock region.

Regarding pumpset use pattern at the aggregate level, Table 4 shows while 49 per cent of the pumpsets were singly used and 42 per cent were jointly used, about 10 per cent were being rented by farmers. As to the regional pattern of pumpset utilisation, while singly-used pumpsets dominated the Indo-Gangetic region and singly and jointly-used pumpsets were in more or less equal proportion in the hard-rock region, pumpset rentals dominated the deltaic region and it remained quite substantial in the mountainous region as well. However, beneath this overall regional pattern, rental activities are quite substantial, i.e., around 24 per cent both in the Indo-Gangetic states of Bihar and Himachal Pradesh and the hard-rock state of Madhya Pradesh. Since pumpsets are mostly fixed with wells, the renting actually means that farmers are sharing water by sharing the use of irrigation equipment and structures. However, it is reported that in the case of deltaic regions particularly West Bengal and Orissa, rented pumpsets are also moved across farms and water sources.⁴

Pumpset Rentals

Table 5 shows the distribution of pumpset rentals by lift modes and pumpset types. Regarding the regional share, about 52 per cent of the total pumpset rentals occurred in

TABLE 4: DISTRIBUTION PATTERN OF MODERN LIFTS

Hydro-Geological Regions/States	Modern Lift-Ownng Households ('00)	Modern Lift Ownership by Farm Size (Per Cent)				Distribution of Modern Lifts by Ownership Type (Per Cent)		
		Marginal	Small	Medium	Large	Single	Joint	Rented
Indo-Gangetic Region	21353	12.12	20.67	61.31	5.90	54.56	38.62	6.82
Bihar	4142	24.00	21.75	49.98	4.27	52.35	22.89	24.76
Haryana	2914	4.50	12.73	69.18	13.59	49.31	45.95	4.74
Himachal Pradesh	21	4.76	33.33	61.91	0.00	23.81	52.38	23.81
Punjab	5544	5.47	14.45	71.73	8.35	58.30	38.64	3.06
Uttar Pradesh	8732	13.27	26.73	57.45	2.55	59.92	42.51	2.57
Deltaic Region	2397	27.87	30.37	41.01	0.75	40.14	10.14	48.96
Orissa	180	4.45	28.89	56.66	10.00	33.33	26.32	40.35
West Bengal	2217	29.77	30.49	30.13	9.61	40.74	8.73	49.70
Hard-rock region	40317	16.73	20.37	51.46	11.44	45.90	46.11	7.97
Andhra Pradesh	6024	18.97	21.72	42.05	13.26	38.35	54.83	6.82
Gujarat	4933	5.82	15.75	68.19	10.24	58.04	39.61	2.35
Karnataka	2875	13.91	15.90	52.49	17.70	70.25	23.57	6.18
Madhya Pradesh	3434	6.44	11.36	60.16	22.04	46.48	29.18	24.34
Maharashtra	7727	13.33	16.09	52.25	18.33	45.74	39.95	14.14
Rajasthan	4228	10.26	18.83	62.61	8.30	23.33	69.91	7.76
Tamil Nadu	11096	29.20	29.24	39.04	2.52	47.61	49.98	2.41
Mountainous region	1084	45.52	30.44	23.80	0.24	56.14	4.89	38.51
Assam	2	0.00	100.00	0.00	0.00	0.00	0.00	100.00
Jammu and Kashmir	6	10.67	16.67	72.66	0.00	83.33	0.00	16.67
Kerala	1038	46.05	29.96	23.70	0.29	57.71	5.11	37.18
Manipur	10	30.00	40.00	30.00	0.00	0.00	0.00	88.89
Tripura	28	39.29	42.86	17.85	0.00	14.29	0.00	71.43
Total	65151	16.16	21.01	53.80	9.03	48.70	41.76	9.48

Notes: (1) As in Table 1.

(2) The number of pumpset owning households is more than the number pumpset reported in Table 3 because of double counting.

Source: See Table 1.

the hard-rock region followed by the Indo-Gangetic region with 23 per cent of the total rentals. Of the total pumpset rentals installed with dugwells, 89 per cent occurred in the hard-rock region. On the other hand, the Indo-Gangetic and the deltaic regions accounted for over 92 per cent of the rental of pumpsets installed with tube-wells. In the Indo-Gangetic region, 78 per cent of the total rentals occurred in the tube-well mode of lift irrigation whereas, in the hard-rock region, 60 per cent of the total pumpsets installed with dugwells were rented. This proportion is still higher for states like Gujarat and Tamil Nadu where pumpset rentals were almost exclusively confined to those installed with dugwells. But, in the deltaic and mountainous regions, the majority of the rented pumpsets were installed in surface water-based lift irrigation schemes.

Surprisingly, the hard-rock region also dominated in terms of its share of pumpset rentals occurred in surface water-based systems. Consistent with its dominant position in the overall pumpset rentals, the hard-rock region had over 66 per cent of the total electric pumpset rentals and 48 per cent of the total diesel pumpset rentals. However, the Indo-Gangetic region accounted for over 74 per cent of the total pumpset rentals in both categories. Finally, at the aggregate level, while the distribution of pumpset rentals was more or less uniform across the three modes of lift, their distribution across energy use was, however, in favour of diesel power in the ratio of 3:1. However, at the individual state level, renting of electric pumpsets was dominant in a few states like Haryana, Himachal Pradesh, Gujarat, Tamil Nadu, and Jammu and Kashmir.

While it is understandable why renting of pumpsets in tube-well, dugwells, and surface water-based lifting schemes dominate respectively in the Indo-Gangetic region, hard-rock region, and the remaining two regions in view of the dominance of the respective modes of lift systems in these regions, special attention needs to be given as to why diesel pumpsets are rented more across all the four hydro-geological regions. One possible explanation can be that since diesel pumpsets are highly mobile in the sense that they can be easily moved across farms and water sources under flexible conditions, farmers are hiring them more than the electric pumpsets which are permanently fitted with wells and power supply structures. If the water source is a shallow tube-well or some surface-water body, the mobility and flexibility of diesel pumpsets will be real considerations and the above explanation can approximate the reality. However, in the case of Gujarat and Tamil Nadu which depend almost exclusively on dugwells where electric pumpset rentals dominate undermine the explanation based on mobility and flexibility. In these cases, pumpsets

per se are not rented but along with the pumpset rental goes the renting of well structures as well as the buying of water. That is, farmers rent the electric pumpsets fitted in their neighbour's wells essentially to get water from the later. In this case, pumpset rentals appear to coincide with the water market [Saleth 1991b].

VI Theoretical and Policy Implications

Even though the data analysed belong to the 1976-77 period, the analysis does have a few significant and currently relevant implications for both economic theory and public policy.

Firstly, the dominant role of diesel-powered pumpsets in many states questions the underlying wisdom of the argument by researchers [Shah 1985 and 1989 and Shah and Raju 1988] to change the electric power supply and tariff policies to indirectly influence the amount of ground water withdrawal. Under a situation when diesel-powered pumpsets predominate over electric-powered ones, such a policy will not have much effect.⁵ Since diesel-operated pumpsets can be used by farmers to bypass these regulations, the regulatory impact of electric tariff and supply policies is a suspect. Further, farmers in many parts of rural India continue to prefer diesel-powered pumpsets despite increasing diesel cost essentially to insulate them from frequent

power shortage and the attendant power rationing. Since the operating cost of diesel pumps was found to be two to five times higher than that of electric pumps in many states like Rajasthan and Bihar, there is an argument for an upward revision of power tariff up to the cost of diesel [Samanta et al 1982, p 143]. While the revenue of the state electricity boards could, no doubt, be increased several-fold without affecting the net income of at least those farmers currently using diesel pumpsets, tariff policy or even power rationing cannot lead automatically to reduced ground water withdrawal in view of the presence of diesel pumpset option for the farmers. Moreover, the water withdrawal decision of farmers is not based on the comparison between diesel cost and electricity cost but ultimately on a comparison between the energy cost and the additional revenue due to water application. Insofar as the increased tariff still forms only a meagre proportion of the additional income generated from irrigated agriculture, a farmer's water withdrawal decision will not get much affected by power tariff policies [Saleth 1991b]. Therefore, for the effective control of ground water depletion, planners should think of more direct and effective methods of regulation like some form of water rights system.⁶

While power scarcity is the main reason for farmers' choice of diesel pumps in states like Bihar, Haryana, and Rajasthan, their mobility is the predominant factor for their

TABLE 5: ESTIMATED PUMPSET RENTALS AND THEIR DISTRIBUTION

Hydro-Geological Regions/States	Total Pumpset Rentals ('00)	Distribution of Pumpset Rentals by Water Source (Per Cent)			Distribution of Pumpset Rentals by Energy Use (Per Cent)		
		Wells	Tube-wells	Others	Electricity	Diesel	Both
Indo-Gangetic Region	1415	4.59	78.73	16.68	28.27	64.66	7.07
Bihar	878	4.10	70.62	25.28	30.52	58.55	10.93
Haryana	138	2.90	91.30	5.80	51.45	48.55	0.00
Himachal Pradesh	5	0.00	100.00	0.00	100.00	0.00	0.00
Punjab	170	4.12	95.88	0.00	25.88	71.77	2.35
Uttar Pradesh	224	8.03	89.29	2.68	5.36	94.64	0.00
Deltaic Region	1043	1.15	42.28	56.57	4.60	94.64	0.76
Orissa	69	5.80	0.00	94.20	5.80	94.20	0.00
West Bengal	974	0.82	45.28	53.90	4.11	95.07	0.82
Hard-rock region	3166	59.73	3.85	36.42	31.81	67.21	0.98
Andhra Pradesh	407	62.90	19.41	17.69	42.24	57.76	0.00
Gujarat	116	93.97	6.03	0.00	84.48	15.52	0.00
Karnataka	165	68.48	0.00	31.52	40.61	57.57	1.82
Madhya Pradesh	833	33.49	0.36	66.15	7.08	92.92	0.00
Maharashtra	1050	68.86	0.00	31.14	31.24	67.33	1.43
Rajasthan	328	53.96	5.49	40.55	21.34	77.14	1.52
Tamil Nadu	267	87.64	5.62	6.74	78.28	18.72	3.00
Mountainous region	417	35.49	0.48	64.03	13.43	85.13	1.44
Assam	2	0.00	0.00	100.00	0.00	100.00	0.00
Jammu and Kashmir	1	100.00	0.00	0.00	100.00	0.00	0.00
Kerala	386	38.08	0.00	61.92	14.25	84.20	1.55
Manipur	8	0.00	0.00	100.00	0.00	100.00	0.00
Tripura	20	0.00	10.00	90.00	0.00	100.00	0.00
Total	6041	35.03	27.79	37.18	25.01	72.72	2.27

Notes: As in Table 1.

Source: See Table 1.

choice by farmers in the deltaic regions as well as other areas relying on surface water bodies for lift irrigation. The mobility aspect is also important in canal command areas where ground water availability at lower depth and the lower cost of constructing borewells make the temporary and make-shift installation of pumpsets feasible and economically viable. Erratic canal water supply has been a major factor for the expansion of diesel pumpset installation in many canal and delta regions.⁷

Secondly, the expanding phenomenon of pumpset rentals is an indication for the existence of surplus pumping capacity with a number of farmers particularly with diesel pumpsets. It also brings forth certain conceptual and institutional implications. As has been noted earlier, farmers in the deltaic region used to rent pumpsets in the sense that pumpsets are physically moved across farms to tap water from different water sources or locations. This is similar to the rental or leasing of any other equipment/assets.⁸ Such a movement is possible as the water being tapped is mostly from surface sources. But, in the hard-rock and the Indo-Gangetic regions, pumpset rentals do not involve pumpset movement. That is, farmers rent the pumpsets installed or fitted permanently with wells owned by their neighbours. Here, there is a nomenclatural problem which has fundamental implications in terms of property rights in water. That is, the same phenomenon discussed as 'water markets' by many independent researchers [Kolavalli and Chicoine 1989; Shah 1989 and Dhawan 1988] has been described as 'pumpset rentals' by government-related institutions [NCAR 1978; NSSO 1984 and 1985]. The government organisations' position in this respect derives from the Model Ground Water Act (control and regulations) of 1971 designed by the centre and circulated among states for its possible adoption.⁹ Even though the act was never adopted by any state so far, the act stipulates that ground water should be allocated in proportion to land ownership and those who do not have wells/pumpsets can avail their share by "renting the wells/pumpsets of their neighbours".¹⁰ In other words, in those cases rentals involve pumpsets fitted permanently with wells or other water sources, the rental market and water market are only two parts of a same phenomenon.

Further, it is instructive to note that the payment a farmer makes for irrigation asset/water sharing has four components: (a) energy costs, (b) rent for pumpset use, (c) some annuity on the investment on dugwells/structures, and (d) price for the water.¹¹ In the case of diesel pumpsets rented to extract water from a water source other than the one currently being tapped, the farmer's payment has only the component

(b). In this case, there exists only a market not for water but for irrigation assets. However, in the case of a rented diesel or electric pumpset fitted permanently with any water source except those under common property arrangements, a farmer's payment has all the four components noted above. Both the water market and the market for irrigation assets exist side-by-side. Further, when water resources are considered to be a common property, again there will only be a rental market for irrigation assets. But, in those cases where both the irrigation assets and the water resources are publicly owned like the public or co-operative lift irrigation systems, there will be any market but only the simple provision of water at cost equalising energy use and administrative expenses. Thus, depending upon the type of pumpsets and wells as well as the existing or postulated property rights system, there can exist water markets or rental markets or both. The theoretical and policy implications of this issue cannot be overemphasised.

Although our analysis of pumpset distribution by IIP capacity (Table 6) suggests the tendency among farmers to install higher IIP capacity than necessary leading to the emergence of surplus pumping capacity noted by many researchers [Dhawan 1988, p 186; Dhawan 1990, p 184 and Shah and Raju 1986] the underrated capacity is also due to the frequent power shortage and limited hours of power supply, and load

shedding as well as water-related problems. In this context, joint-ownership and pumpset rentals could help reduce underutilisation of pumping capacity to the extent power and water are not limiting factors. Besides their role in enhancing the better utilisation of irrigation assets, rental markets also have substantial equity and welfare effects as they benefit mostly the assetless small and marginal farmers with low or no share in canal irrigation especially under conditions of climatic failures [Saleth 1992].

Thirdly, the Indo-Gangetic region that witnessed the heavy explosion of modern water lifting mechanisms like electric and diesel-powered tube-wells also had the largest share of wells operated by traditional lifts powered by human and animal energy. This is particularly so in Bihar and eastern parts of Uttar Pradesh where the existence of fragmented holdings, the poorly developed infrastructure including electric power supply, and the climatic conditions do not justify the installation of modern lifts which require some minimum size to lend economic and technical viability. For instance, Dhawan (1982) has noted that in these regions, the minimum holding required to make investment in modern lifts is much higher than the average size of holding. Further, an International Rice Research Institute (IRRI) study finds that the higher cost of acquiring and operating electric and diesel-powered lifts and lack of dependable supply

TABLE 6: PUMPSET DISTRIBUTION BY IIP CAPACITY

Hydro-Geological Regions/States	Total Pumpset Reporting Households	Below 3 IIP	3 to 5 IIP	Over 5 IIP	Unrecorded	Below 3 IIP	3 to 5 HP	Over 5 HP	Unrecorded
Indo Gangetic region	21353	1449	1541	17846	517	6.79	7.22	83.58	2.42
	32.77	48.67	12.18	38.58	15.82				
Bihar	4142	1425	962	1755	0	34.40	23.23	42.37	0.00
Haryana	2914	0	212	2561	141	0.00	7.28	87.89	4.84
Himachal Pradesh	21	0	0	17	4	0.00	0.00	80.95	19.05
Punjab	5544	17	313	5070	144	0.31	5.65	91.45	2.60
Uttar Pradesh	8732	7	54	8443	228	0.08	0.62	96.69	2.61
Deltaic region	2397	68	150	1322	857	2.84	6.26	55.15	35.75
	3.68	2.28	1.19	2.86	26.22				
Orissa	180	4	20	114	42	2.22	11.11	63.33	23.33
West Bengal	2217	64	130	1208	815	2.89	5.86	54.49	36.76
Hard-rock region	40317	1180	10620	26825	1692	2.93	26.34	66.54	4.20
	61.88	39.64	83.95	57.99	51.76				
Andhra Pradesh	6024	266	1544	4168	46	4.42	25.63	69.19	0.76
Gujarat	4933	166	168	4441	158	3.37	3.41	90.03	3.20
Karnataka	2875	368	989	1518	0	12.80	34.40	52.80	0.00
Madhya Pradesh	3434	65	921	2022	426	1.89	26.82	58.88	12.41
Maharashtra	7727	115	2601	4071	940	1.49	33.66	52.69	12.17
Rajasthan	4228	17	513	3576	122	0.40	12.13	84.58	2.89
Tamil Nadu	11096	183	3884	7029	0	1.65	35.00	63.35	0.00
Mountainous region	1084	280	340	261	203	25.83	31.37	24.08	18.73
	1.66	9.41	2.69	0.56	6.21				
Assam	2	0	0	0	2	0.00	0.00	0.00	100.00
Janmu and Kashmir	6	0	0	5	1	0.00	0.00	83.33	16.67
Kerala	1038	279	332	246	181	26.88	31.98	23.70	17.44
Manipur	10	1	0	4	5	10.00	0.00	40.00	50.00
Tripura	28	0	8	6	14	0.00	28.57	21.43	50.00
Total	65151	2977	12651	46254	3269	4.57	19.42	71.00	5.02

of fuels make manual irrigation an attractive alternative [IRRI 1988]. The manual lifts that can lift water from a depth of eight metres and provide sufficient water for farms less than 0.5 ha are easily affordable by small and marginal farmers as they cost only Rs 280 per lift [IRRI 1988]. These land tenure and cost-related factors explain why the traditional lifts, especially manual ones, dominate in the eastern part of the Indo-Gangetic and deltaic regions.

Fourthly, the installation and ownership pattern of water lifting mechanisms also have some notable equity effects. Our analysis of pumpset distribution by farm size shows that smaller and marginal farmers as a group own more traditional water lifting mechanisms than modern lifts. With few exceptions, there exists a positive association between farm size and pumpset ownership. The most obvious factors contributing to the lower share of smaller farmers in modern lifts are their farm size and capital limitations. Both renting as well as joint and co-operative-ownership arrangements, could help advance some equity in their access to modern lifts. There is also an equity issue with still more fundamental implications. Given the dependence of small and marginal farmers on traditional lifts, falling ground water table due to excessive water withdrawals by large farmers with higher capacity modern lifts has produced a havoc on the small farming systems of many hard-rock regions. The steep dip in the number of traditional lifts from 4.2 to 1.7 million during 1969-90 is not due to their replacement by modern ones alone but also due to the fact that several hundred small and marginal farmers have simply been driven out of farming as they failed to compete for ground water. Many leading experts call for massive expansion of public tube-well system in areas dominated by fragmented holdings and small and marginal farms so as to enhance ground water utilisation and advance equity in the access to both water and irrigation equipment while internalising the pernicious inter-farms and intra-aquifer externalities [Dhawan 1990]. The minor irrigation development in the current plan should take this important aspect into consideration.

Finally, while the major thrust on ground water-based minor irrigation as a mechanism for drought-proofing in Indian agriculture is understandable, proper consideration of water resource potential and power availability should be seriously considered. The expansion should be in the white areas (i.e., where current ground water exploitation is less than 40 per cent of the regional ground water potential) so as not to depress ground water table further. Otherwise, the failure rate in well digging activities will surpass the currently estimated 6 per cent. Any more increase in the failure rate has

particularly deleterious consequences for private investment in lift irrigation particularly in the hard-rock regions where a dugwell costs, on an average, Rs 40,000 [TNAU 1990, p 73].

Furthermore, receding ground water table in already precarious areas leads to increasing cost of water lifting and also to lower command area per well causing an overall decline in the net sown area (NSA) and corresponding increase in current fallow especially in the absence of sufficient rainfall.¹² Therefore, an evaluation of the necessary technical and physical conditions of each region/state is crucial for the achievement of the plan targets without much disturbance to ground water tables.

Also, an area can remain white for various other reasons such as infrastructural, land tenure, and power-related problems. Unless these investment bottlenecks are corrected, achievement of the Eighth Plan targets just by focusing on the infrastructurally well endowed regions could not only lead to further depression in the ground water table but also accentuate the existing regional imbalances in ground water exploitation. For instance, the Eighth Plan aims to expand minor irrigation in the Indo-Gangetic region which already has a higher NIAI even though it has lower share in irrigation wells and pumpsets thanks to higher delivery capacity of tube-wells. Dhawan (1990) has voiced concern about this regional imbalance as well as the need to expand power generation capacity to cope with the increased power demand from an expanding lift irrigation economy. There is a greater need now to expand pumpset/well installation in West Bengal and water-abundant parts of the hard-rock regions especially in the canal command and river valley areas.

VII Conclusion

The regional pattern of NIAI as well as pumpset installation reveals an extreme regional disparity in line with the variations in the agro-climatic and water resource potential of the four hydro-geological regions. However, to foster a more balanced regional development of agriculture, there is a strong need for the promotion of regional balance in lift irrigation through equalising policies like inter- and intra-basin water transfers. In this context, the augmentation tube-well programmes operating in Haryana and Punjab where larger capacity tube-wells are used to augment canal water and, at the same time, to avoid actual or potential waterlogging problems by maintaining favourable sub-surface hydrological equilibrium in canal command regions should be expanded further to cover also the large-scale ground water transfers from canal command areas to the adjacent unirrigated or water-short

regions to support and stabilise rainfed farming. Despite the massive rural electrification programme, the lift irrigation economy as a whole appear to rely more on diesel pumps than on electric pumps both for primary and stand-by irrigation. The rapid spread of diesel pumps is an indication not only of the weakness of our rural electric supply and distribution systems but also of our farmers' capacity to bypass well-spacing and ground water withdrawal regulations implemented indirectly through electric power connection and tariff policies. Although the majority of the pumpsets are either singly or jointly owned, a significant proportion of them are also being 'rented' by farmers. Apart from the conceptual issue of whether to call this phenomenon as a water market or rental market for irrigation assets, it appears to have substantial equity and efficiency effects as they benefit mostly the small and marginal farmers and encourage the better utilisation of irrigation assets. Finally, given the already existing extreme regional imbalance in lift irrigation and ground water utilisation, further expansion without suitable regional adjustment could not only accentuate regional disparity but also depress ground water table causing reduction in command area per well and concurrent increase in current fallow.

Notes

[The authors like to acknowledge the statistical and secretarial assistance of Nandhini.]

- 1 This estimation is based on the approach suggested by Dhawan (1990, p 107). That is, this number is obtained by adding (i) the difference between the total wells in the country and the total wells with pumpsets and (ii) 50 per cent of the number of surface water-based lifts.
- 2 This estimate is based on the assumption of 0.20 litre of diesel consumption per HP per hour of running and 95 hours of pumpset running per month [see Samanta et al 1982, p 144].
- 3 Dugwells in many areas in the hard-rock region (e.g. Coimbatore and Salem districts in Tamil Nadu) have gone so deep as to warrant the installation of an additional pump to relay water lifted by the pumpset located at the bottom of the well.
- 4 Samanta et al (1982, pp 70-71) have observed from farm level surveys that mobility is the topmost consideration for the choice of diesel pumpsets by farmers in Orissa and West Bengal.
- 5 Notably, Shah (1989) has argued for this policy in the case of Gujarat where 90 per cent of the pumpsets were operated by diesel power.
- 6 For a discussion on the economic and technical feasibility of establishing water rights system in India, see Saleth (1991a).

- 7 For instance, in the Tiruchirapalli district in Tamil Nadu, diesel-operated pumps have witnessed a 367 per cent increase during 1974-82 as against just a 46 per cent increase in electric pumpsets [Tamil Nadu Agricultural University 1991, p 34].
- 8 In a few West Bengal villages, Kolavalli and Atheeq (1990, p 26) have noticed the practice of leasing diesel pumpset on a seasonal basis with the lease rate per crop season varying between Rs 1,200 and Rs 1,500.
- 9 For an easy reference for the Model Act, see Pathak (1989, pp 117-124).
- 10 Notice that the act has visualised a water rights system that resembles in many respect the correlative water rights system operating in many mid-western states of the US.
- 11 Personal communication from SM Patel quoted in Kolavalli and Chicoine (1989, p 43).
- 12 This scenario has already happened in many parts of the hard-rock region. For instance, in the arid zones of Tamil Nadu (Ramanathapuram-Thirunelveli areas) as well in the ground water-dependent areas (Madurai, Coimbatore, and Salem districts) declining water table and the attendant water depletion led to 8 per cent decline in NSA and corresponding increase in current fallow [TNAU 1990, p 18]. For Tamil Nadu as a whole, current fallow has more than doubled between the triennia 1956-59 and 1982-85, i.e., current fallow has increased from 0.8 mha to 1.7 mha.

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Inter-Sectoral Terms of Trade

Issues of Concept and Method

B L Mungekar

The subject of terms of trade between agriculture and industry assumes great significance in the context of economic development because it is directly related to some of the most basic aspects of a developing economy, like distribution of income between two sectors, accumulation of wealth and rate of growth of the economy. The estimation of inter-sectoral terms of trade has been fiercely debated in Indian academic circles for the past two decades.

This paper reviews the ongoing debate highlighting some of the important points of contention among researchers on methods of estimation.

INTRODUCTION

THE first systematic estimates of agriculture's terms of trade in India were provided by Thamarajakshi (1969). She estimated series of indices of agriculture's barter terms of trade for the period 1951-52 to 1965-66 and later extended it up to 1974-75 [Thamarajakshi 1977].¹ A novelty of Thamarajakshi's study was that along with barter terms of trade, she also estimated agriculture's income terms of trade by correcting the former with the volume of agriculture's marketed surplus at constant prices, using 1960-61 as the base year.

After 11 years Kahlon and Tyagi put to severe test some of the major ingredients of the methodology used by Thamarajakshi for estimating agriculture's barter as well as income terms of trade. Not only did they criticise her method of quantifying agriculture's marketed surplus to domestic non-agriculture which she used for estimating agriculture's income terms of trade but also questioned the validity of 'income terms of trade' as an analytical concept and, consequently, discarded it as misleading. Earlier, Tyagi (1979) had attacked Mitra's thesis presented in 1977 (in which he had analysed the question of terms of trade in political economy framework) that the agricultural price policy in India was biased in favour of agriculture. He sought to prove that if there was a class bias it was against agriculture.

Kahlon and Tyagi's critique of Thamarajakshi was in turn attacked by Vittal (1986). She sought to demolish virtually everything that Kahlon and Tyagi had to say on the subject and vehemently defended both Mitra and Thamarajakshi. This was followed by heated exchanges between Tyagi (1988) and Vittal (1988). Finally, Thamarajakshi (1990) argued that "Kahlon and Tyagi have not made any original contribution" to methodology of estimating terms of trade.

The balance between agriculture and industry is one of the major themes in the literature on economic development. One strand in the theme is the terms of trade between agriculture and industry. The inter-

sectoral terms of trade have implications for, among other things, distribution of income between the two sectors, accumulation and the rate of growth of the economy. Before these can be analysed, it is essential that the concept of the terms of trade is correctly specified and the inter-sectoral terms of trade are estimated. In the Indian context the last two decades have witnessed an ongoing debate of estimating inter-sectoral terms of trade. The present paper seeks to review this debate concentrating specifically on the following issues:

- (i) the use of the wholesale prices of agricultural and industrial products as terms of trade;
- (ii) the pattern of trade;
- (iii) wholesale vs farm harvest prices as price indicators;
- (iv) the rationale of 'income terms of trade'; and
- (v) the method of estimating agriculture's marketed surplus

I

Use of Wholesale Prices as Terms of Trade

Before Thamarajakshi, some research scholars,² Mitra being one among them, estimated the ratios of index numbers of wholesale prices of agricultural commodities to those of the wholesale prices of manufactures and considered them as agriculture's terms of trade. In this context, what seems to be surprising is the fact that they rarely acknowledged the intrinsic limitations of such an exercise.³

The issue involved can be better grasped if we consider the specific context in which the concept of terms of trade was developed. The concept of "terms of trade was developed as an analytical tool in the comparative cost theory of international trade" [Viner 1937]. Further, out of the several concepts of terms of trade that were evolved in the course of time, from the view point of simplicity and practicability, it was the 'commodity' or the 'net' barter terms of trade that remained the most widely accepted indicator of gains from international trade. It is for this reason that almost the entire "discus-

sion of terms of trade has in the past been limited to a consideration of relative prices of exports for its imports" [Dorrance 1949]. Thus, other things remaining the same, a change in country's relative export prices would reflect a change in the capacity of a unit of its exports to fetch in return a certain quantity of imports. In other words, all other things given, a rise in the country's relative export prices will enhance the purchasing power of a unit of exports in terms of imports and thus, the movement in terms of trade will be considered as favourable to the exporting country. What follows, therefore, is that for estimating agriculture's barter terms of trade, prices of only those products should be compared that are actually exchanged between the agricultural and non-agricultural sectors. It is for this reason that Kahlon and Tyagi explicitly, and rightly criticised the pre-Thamarajakshi approach to agriculture's terms of trade.

Vittal, however, seems to justify the validity of straight comparison of wholesale price indices when she argues that "Mitra is less concerned with establishing the *technical purity* of the methodology by which price indices are devised, his concern has been with establishing analytical framework followed by presentation of the actual analysis itself" [Vittal 1988]; or when she says that "these relative prices are used by him (Mitra) to bear out his point of class ascendancy" [Vittal 1986]; or when she reiterates that "it would be incorrect to impose this numerical measure of inter-sectoral terms of trade on Mitra", because "his sweep is wide and it includes this and more" [Vittal 1988]. Of course, Vittal hastens to add that "this is not to suggest that the terms of trade series is unimportant in Mitra [ibid]. We are very much in accord with Mitra so far as his analytical framework for discussing terms of trade is concerned. However, as the debate reveals, Kahlon and Tyagi are concerned more with the methodology of the numerical measure of inter-sectoral terms of trade rather than the width and depth of Mitra's sweep.

Further, one of the major limitations of wholesale price indices that vitiates their adequacy to represent the prices received

and paid by the agricultural sector lies in the relative weights assigned to different products in the construction of wholesale price indices. The reasons are too obvious to bear repetition. Thus, when we confine the coverage to the products that are actually exchanged between agriculture and non-agriculture, their relative importance is likely to be dissimilar to what is assigned to them in the construction of wholesale price indices. To illustrate the point, we present in Table 1 the relative weights assigned to some of the major items in the construction of index numbers of wholesale prices with 1961-62 and 1970-71 as base along with the weights assigned to these items in the Thamarajakshi's and Kahlon and Tyagi's studies. The base years of their studies are 1960-61 = 100 and 1971-72 = 100, respectively, which are assumed to correspond to 1961-62 and 1970-71, respectively.

Table 1 reveals how the weights of several major items in the construction of wholesale price indices in 1961-62 and in 1970-71 differ from those assigned by Thamarajakshi and Kahlon and Tyagi. The difference is particularly glaring in respect of cereals as a group, rice, wheat, cotton, oilseeds as well as clothing and fertilisers. This highlights the gross underestimates of weights of major products exchanged between the sectors, and consequently reinforces the view that the ratios of wholesale prices of agricultural and non-agricultural products cannot provide the basis for estimating agriculture's terms of trade, as they are understood in economic theory.

II

Pattern of Trade

Kahlon and Tyagi maintained, and rightly so, that "the degree of accuracy of estimates of terms of trade depends upon comprehensiveness of the identified pattern of trade between the two sectors" [Kahlon and Tyagi 1980, and Tyagi 1988]. In their 1980 paper, they pointed out that Thamarajakshi included in her study items purchased by the agricultural sector only for final and intermediate consumption and left out altogether the items purchased for capital formation. Further, they presumed that Thamarajakshi did not include in agriculture's purchases even the group of 'non-food items' because of the non-availability of its detailed breakup and its non-inclusion in wholesale price indices. Kahlon and Tyagi thus argued that limited coverage of products exchanged between the sectors restricted the validity of Thamarajakshi's analysis of terms of trade.

Recently, not only has Thamarajakshi (1990) refuted Kahlon and Tyagi's allegation of exclusion of 'non-food items' from her exercise, but showed that their coverage of products sold by agriculture itself was incomplete. They omitted items such as tea,

coffee, raw hides, skins and wool. These omissions resulted in underestimation of the value of agriculture's sales to non-agriculture.

It is true that except for tea the share of the values of each of the items such as coffee, hides, skins, and wool in the total value of sales by agriculture is very small.⁴ However, Thamarajakshi rightly pointed out that their exclusion underestimates the value of agriculture's sales to non-agriculture. But if one is unable to comprehend Kahlon and Tyagi's assumption of exclusion of 'non-food items' from Thamarajakshi's exercise, one also fails to appreciate the way Vittal takes up the issue of 'pattern of trade'. For instance, she argues that "going back to Thamarajakshi (1969) it is clear that she did not ignore it (i.e., category of 'non-food items') at all". After elaborating in detail the weighting pattern evolved by Thamarajakshi and weight assigned to 'non-food items', Vittal continues that "our problem over presumed absence in the price indices of non-food is not only resolved but been never have arisen". Vittal is perfectly right. But then she immediately adds that "in fact, the only reason it (the problem) did arise was because it is not clear from Kahlon and Tyagi's classification of terms of trade studies whether they are talking of the first category represented by Mitra, Sidhu and others, or of the second represented by Thamarajakshi and Venkataraman" [Vittal 1988]. Here, Vittal is grossly mistaken.

First, Kahlon and Tyagi leave no chance for anybody including Vittal for confusion as to which studies they were talking about. For, they clearly state that "studies falling in the first category (Mitra, Sidhu and others) suffer from the limitation that such groups as manufactures for which index numbers of wholesale prices are available are inclusive of many such commodities which are not transacted between the two sectors. However, this all inclusive group of commodities could account for even such items of capital formation which were left out in the second group (Thamarajakshi and Venkataraman) of studies; at best, only

products exchanged for final and intermediate use were identified. Again, in the case of products exchanged between the two sectors for final use, the studies relied upon NSS consumption expenditure surveys which provided details only under 12 heads and in fact, restricted the number of items identified as purchased by agricultural sector for final consumption to only six; edible oil, sugar, salt, clothing, fuel and light and non-food items" [Kahlon and Tyagi 1980].

Is it not clear that the studies included by Kahlon and Tyagi in the *second category* unequivocally refer to the studies by Thamarajakshi and Venkataraman? It is surprising as to why Vittal allows herself to get confused. For instance, in her 1986 paper she argued: "With regard to the charge that 'non-food items' do not figure in the indices, an examination of Thamarajakshi shows that such purchases are very low indeed and account for a negligible proportion of value of agricultural purchases by the farm sector. Hence, while Kahlon and Tyagi are justified in observing that these items have been excluded from the price indices, they appear to be exaggerating the effect of this on the estimated price rise in non-agricultural commodities by the agricul-

TABLE 2: WHOLESALE AND FARM HARVEST PRICES OF WHEAT IN PUNJAB

Year	Wholesale Price	Farm Harvest Price	Column (2) as Per Cent of Column (3)
(1)	(2)	(3)	(4)
1969-70	85.24	82.88	102.85
1974-75	116.05	108.40	107.06
1975-76	113.60	105.67	107.50
1976-77	115.46	110.68	104.32
1977-78	116.11	114.88	101.07
1978-79	122.10	117.50	103.91
1979-80	123.85	120.05	103.16

Note: Wholesale prices relate to the calendar years. For instance wholesale price relating to 1969 is taken to correspond to 1969-70.

Source: The Economic Advisor, Government of Punjab, Statistical Abstract of Punjab, 1981.

TABLE 1: WEIGHTS OF SELECTED COMMODITIES

Commodity	Wholesale Prices with base		Thamarajakshi	Kahlon and Tyagi
	1961-62=100	1970-71=100		
(1)	(2)	(3)	(4)	(5)
Cereals	12.10	10.74	28.05	34.55
Rice	6.69	5.13	—	19.81
Wheat	3.22	3.42	—	10.28
Cotton	2.24	2.25	7.75	8.76
Oilseeds	5.26	4.20	15.51	17.69
Edible oils	5.37	3.72	5.87	9.54
Clothing	8.90	8.49	19.53	19.92
Fertilisers	0.53	1.25	9.86	7.36

Sources: Columns 2 and 3, Chandhok, 111. (1978); Column 4, Thamarajakshi (1969). The weights are derived on the basis of information given in Table 9, Column 5, Kahlon and Tyagi (1983).

'rural sector' [Vittal 1986]. It was this remark of Vittal and the preponderant importance of 'non-food items' in agriculture's total purchases (as Vittal herself explained later in her 1988 paper) provoked Tyagi to ask 'how small is small'. Vittal again wrongly interpreted this as the rate of increase in the value in real terms of 'non-food items' purchased by agriculture during 1951-52 to 1960-61 and replied that 'small' is 0.76 per cent [Vittal 1988]. This is how impatience and rhetorics result in digression.

As regards Kahlon and Tyagi's criticism of exclusion of capital formation items, Thamarajakshi (1990) argues that her 1969 article "referred only to inter-sectoral purchases for current consumption and production and not to capital purchases or factor flows. In other words, far from being averse to the inclusion of capital formation items in agriculture's purchases she concedes that "for a comprehensive treatment the entire gamut of inter-sectoral flows would have to be taken into account". The expenditure incurred by the agricultural sector on current repairs, maintenance of fixed assets and consumption of fixed capital as given by CSO represents expenditure only on current production and hence excludes that on capital formation. Thus, the latter needs to be separately taken into account while estimating agriculture's terms of trade. We however share Thamarajakshi's view that the final trend in the barter terms of trade series is influenced by the indices of prices paid by agriculture for final and intermediate products. Thus, Vittal's assertion that in Kahlon and Tyagi's study terms of trade "could not but help appear to be against the agricultural sector simply because of their introduction of capital formation goods" is not sustained [Vittal 1986].⁵

Let us now examine the items included by Kahlon and Tyagi themselves in agriculture's purchases for final consumption. For the identification of such products, the authors used the information in the 26th NSS round that gives information about the consumption expenditure pattern of rural cultivator households only. From the Kahlon and Tyagi's list of products it appears that they took into account individual items while Thamarajakshi grouped them [Thamarajakshi 1990]. In this context two main points may be raised. First, is it appropriate to consider the consumption pattern relating only to the cultivator rural households as representative for all expenditure classes in the rural areas? Second, would not it inflate the weights of some of the important items such as footwear, dress and medicine, cosmetics/soap and detergents, metal products, paper and paper products, utensils and cycles? This has serious implications for the movements of terms of trade. The consumption pattern applicable to the rural cultivator households may be appropriate if we are

estimating terms of trade for cultivator rural households vis-a-vis the rest of the economy. This is not however, the case. We therefore think that the consumption pattern of all the heterogeneous rural economic classes would be better indicated if we take into account the all-India average expenditure of all rural expenditure classes. For, it incorporates expenditure by different rural expenditure classes on individual consumption goods. Thus, to us the use of information in the 26th NSS round for evolving weights of individual products purchased by agriculture for final consumption itself seems to be questionable.

III Price Indicators

Since agriculture's terms of trade is the ratio of agricultural and non-agricultural prices, one hardly needs to elaborate the overwhelming importance of price indicators that are to be used in constructing the terms of trade indices. In this connection, while criticising earlier studies on inter-sectoral terms of trade on methodological ground and specifying the components of their 'alternative methodology', Kahlon and Tyagi (1980) and Tyagi (1988) insisted on the use of appropriate price indicators that would correctly reflect the prices received and paid by the agricultural sector. In the case of the prices paid by agriculture for non-agricultural products for intermediate and final consumption, the use of their 'retail' prices would have been more appropriate.

However, in the absence of time series data of retail prices of these products for the country as a whole the use of their wholesale prices as price indicators may be considered somewhat appropriate. This is also true in respect of products sold by agriculture for final consumption such as milk and milk products; fruits and vegetables; meat, eggs and fish, etc. Thus, the controversy narrows down as to what are the appropriate indicators of prices received by the producers for 'food' and 'non-food' crops sold to the non-agricultural sector.

In all the earlier studies including that of Thamarajakshi, the economic advisor's index numbers of wholesale prices were used to reflect the prices received by agriculture for food and non-food crops. Kahlon and Tyagi were the first to use farm harvest prices of food crops such as rice, wheat, jowar, bajra, pulses, etc. and non-food crops such as oilseeds, cotton, jute, sugarcane, tobacco, etc. The authors themselves constructed all-India index of farm harvest prices of each of these commodities by using the "weighted average price of state farm harvest prices—weight being the share of each state in the total (i.e., all-India) production of that commodity" [Kahlon and Tyagi 1980].⁶

Vittal, in her 1986 paper raised certain objections to the use of farm harvest prices. Firstly, she pointed out that farm harvest prices across the country are difficult to collect; and, secondly, they are based on a very small sample of what can be called 'farm gate prices'. However, according to Vittal, "more important than this is the fact

TABLE 3: PRICE MOVEMENTS IN RAW COTTON (KAPAS), ADONI (ANDHRA)

Year	Farm Harvest Prices		Year	Wholesale Prices		Trade Margin
	Price	Annual Change		Price	Annual Change	
1952-53	29		1953	31		7
1953-54	26	-10	1954	33	+7	27
1954-55	19	-27	1955	21	-36	11
1955-56	24	+26	1956	28	+33	17
1956-57	24	0	1957	29	+4	20
1957-58	23	-4	1958	25	-14	9
1958-59	26	+13	1959	30	+20	15

Source: Vittal (1988).

TABLE 4: HYPOTHETICAL INDICES

Year	Agricultural Sector			Non-Agricultural Sector		
	Net Barter Terms of Trade	Indices of Export	Income Terms of Trade	Net Barter Terms of Trade	Indices of Export	Income Terms of Trade
1	98	99	97	102	97	98.9
2	100	99	99	100	98	98.0
3	99	99	98	101	99	100
4	100	100	100	100	100	100
5	101	100	101	99	102	101
6	103	101	104	97	106	103
7	105	102	107	95	110	105
Proportionate per cent increase	+6.86	+2.97	+9.7	-7.14	+12.61	+6.03

Source: Kahlon and Tyagi (1980). The proportionate per cent increase in various series of indices are estimated by Vittal (1986).

that the minority of farmers who are the biggest surplus producers (and therefore whose prices influence the market) do not sell at harvest; they hold on to the produce, selling the maximum in the lean season in order to benefit from high prices. Thus, the use of farm harvest prices will completely misrepresent the prices received for the major part of the volume of grain traded." She further adds that "nor is the farm harvest price any more accurate for small producers who constitute the majority of farmers by number. Many of them repay loans and interest in kind whose valuation may have nothing to do with the prevailing 'harvest price'. Thus, such a price paid to them represents prices received for a small part of their already small surplus.

Vittal objects to the use of farm harvest prices on the ground that they are not available across the country, and that they are based on a very small sample. These objections are however dealt with by Tyagi (1988). In this regard, the most relevant point made by him needs to be spelt out again. He argued that "irrespective of who sells, i.e., big or small farmer, as far as price received by the farmers is concerned the relevant period is when lion's share gets disposed and it is nothing else but the farm harvest period" [ibid]. He supported his argument by showing that over 90 per cent of total market arrivals of wheat, in Punjab and Haryana hit the market during the period April-June, i.e., farm harvest period [ibid].

Vittal, in her rejoinder [Vittal 1988] reiterates some of her earlier objections to use of farm harvest prices as price indicators. For instance, to Tyagi's assertion that "the relevant period is when lion's share gets disposed and it is nothing but the farm harvest period", she replies that "the relevant period lasted for 12 months till into the 70s for wheat in Punjab and Haryana". She further adds that "the tendency to swamp the market with fresh harvests is a recent one even in Punjab and Haryana—in the country as a whole, the April-June arrivals have stabilised at two-thirds the annual figure"

In order to elaborate her point, she continues that "substantial amounts did arrive after peak season (the bulk did arrive during April-June that is what makes it a peak)".

According to Vittal the big surplus farmers do not sell their produce at the harvest; rather, with the storage facilities at their disposal, they hold it on to sell during the lean period. Consequently, farm harvest prices, are not proper indicator of prices received by the farmers. Vittal's assertion raises a number of questions. First, as Vittal argues, if on the one hand, minority of the biggest surplus farmers do not sell at harvest, and hold on to the produce, selling the maximum in the lean season in order to benefit from the higher prices; and on the other hand, if small farmers repay loan and interest in kind, and ultimately are left with small surplus (which is likely to be very true), where from does the two-thirds come from? In other words, it is apparent that even the big farmers must be disposing bulk of their produce generally during farm harvest period, which in respect of wheat is April to June.

Secondly, as Vittal herself has shown, in the 1970s the market arrivals of wheat during harvest period reached to the staggering level of 90 per cent of the annual market arrivals of wheat in Punjab. At the all-India level, such arrivals come to constitute over two-thirds of the total market arrivals of wheat.⁷

However, this overall pattern of disposing nearly two-thirds of the marketable surplus prevailed even during the 1960s. For instance, on the basis of data relating to quarterly market arrivals of wheat and rice Krishnan (1965) showed that bulk of the market arrivals take place during the immediate post-harvest period. Even in a state like Punjab where farmers are relatively better off and where their holding capacity is also great, the bulk of the sales of wheat (about 60 per cent) takes place within three months of the harvest.

In brief, the above discussion suggests two things; firstly, bulk of the marketable

surplus of food-grains is disposed of during the farm harvest period; and secondly, even the big farmers must be disposing bulk of their surplus during the farm harvest period.⁸

It is in this context that Tyagi's assertion of "who sells: big or small" becomes relevant. It seeks further justification from the fact that the inter-sectoral terms of trade are estimated not for any specific category of farmers (say big or small), but for the entire agricultural sector *vis-a-vis* non-agricultural sector. Thus, taking the agricultural sector as a whole the relevant marketing period is one when the lion's share of the marketable surplus of agricultural produce gets disposed, i.e., the farm harvest period.

Now, if bulk of the agricultural produce is disposed during farm harvest period and hence, analytically it becomes the 'relevant' period, it is the farm harvest price that becomes relevant for indicating the prices received by the agricultural sector.

Having argued that bulk of the marketable surplus of agricultural produce is disposed of during the farm harvest period our next task would be to examine the relation between farm harvest and wholesale prices. For, only such examination may enable us to comment on the appropriateness of farm harvest *vis-a-vis* wholesale prices as indicators prices received by the producers.

In Table 2 we give the annual average wholesale as well as farm harvest price of wheat in Punjab during the period 1969-70 to 1979-80. Additionally, in column 4 of the table we give wholesale price as percentage of farm harvest price. Two things clearly emerge from Table 2. Firstly, the annual wholesale price of wheat always exceeds its farm harvest price. Secondly, and what is really important, the difference is not uniform; it ranges between 1.07 per cent in 1977-78 to 7.50 per cent in 1975-76.

Again, in Table 3 we reproduce the movements of farm harvest and wholesale price of raw cotton in Andhra Pradesh. (In fact, we reproduce it from Vittal's 1988 paper.) The table once again reveals that the difference

TABLE 5: HYPOTHETICAL INDICES

Year	Agriculture					Non-Agriculture				
	Net Barter Terms of Trade P_x/P_m	Indices of Exports Q_x	Income Terms of Trade $P_x \times Q_x$ P_m	Relative Income $P_x \times Q_x$ $P_m \times Q_m$	Relative Import Capacity $\text{Col 3} \div$ Col 7 (4a)	Net Barter Terms of Trade P_m P_x	Indices of Exports Q_m	Income Terms of Trade $P_m \times Q_m$ P_x	Relative Income $P_m \times Q_m$ $P_x \times Q_x$	Relative Import Capacity $\text{Col 7} \div$ Col 3 (8a)
	(1)	(2)	(3)	(4)		(5)	(6)	(7)	(8)	
1	98	99	97	100.00	98.07	102	97	98.9	99.99	101.96
2	100	99	99	101.02	101.02	100	98	98.0	98.99	98.99
3	99	99	98	98.99	98.00	101	99	100	101.11	102.04
4	100	100	100	100.00	100.00	100	100	100	100.00	100.00
5	101	100	101	99.02	100.00	99	102	101	101.00	100.00
6	103	101	104	98.11	100.97	97	106	103	101.98	99.04
7	105	102	107	97.27	101.90	95	110	105	102.94	98.13
Per cent increase	+6.86	+2.97	+9.7	2.73	+3.89	-7.14	+12.61	+6.03	+2.95	-3.76

Sources: Vittal (1986); Columns (4a) and (8a) are added by the author.

between wholesale and farm harvest price is not uniform and it ranges between 6.90 per cent in 1952-53 and 26.92 per cent in 1953-54.

The facts that wholesale prices always exceed the farm harvest prices and that the difference is not uniform should be read in conjunction with the fact that the bulk of the market arrivals of agricultural products take place during the farm harvest period. In other words, if used, the wholesale prices would invariably overstate the prices received by the producers. This will be more so if more and more of the marketable surplus is disposed during the harvest period.

In sum, wholesale and farm harvest prices of agricultural products (crops) may move in the same direction, but the rate at which they change may or may not be uniform.⁹ It is this rate of change in them and not mere direction of their movements is of crucial importance while estimating terms of trade. In other words, Vittal's contention that we "are concerned with movements in prices, not just their absolute levels" cannot be sustained [Vittal 1988].

IV

Income Terms of Trade

Kahlon and Tyagi (1980) questions the concept of 'income terms of trade'. They wrote:

In fact, the concept of income terms of trade defined as $\frac{P_x \times Q_t}{P_m}$ can be itself misleading in

the context of the two sector model since, based on this formula the terms of trade (income) of both the sectors could register the significant increases, leading to a conclusion

that the purchasing powers of both the sectors had increased. On the contrary, the concept of terms of trade implies deterioration in the terms of trade of one sector if it has shown some improvement in the other. This is rightly so because it is the ratio of the two. Thus, the concept of income terms of trade based only on the volume of exports of one sector is misleading.

As mentioned at the beginning, the concept of terms of trade in the area of international trade was evolved as an analytical tool for measuring the gains from trade. In this context, as Viner (1937) pointed out, a serious limitation of net barter terms of trade is that "it relates to a unit of trade, and therefore, fails to reflect whatever relation there may be between total gain from trade and the total volume of trade". In order to overcome this shortcoming of net barter terms of trade, Dorrance (1949) suggested an alternative and named it as 'income terms of trade' which are obtained by correcting the net barter terms of trade with the volume of exports. In other words, the very rationale of estimating income terms of trade is to measure a change in the 'capacity to import', i.e., the quantity of imports obtainable from the sale of exports. It would thus be evident that income terms of trade are superior to net barter terms of trade as the former would clearly show that less favourable or even unfavourable movements in the latter ought not reduce the gain from trade (i.e., capacity to import), if they are accompanied by a favourable or more than proportionate increase in the volume of exports. [Harrod 1933].

Now, Kahlon and Tyagi's main worry has been that in the context of two sector model

the income terms of trade could improve for both the sectors, leading to a conclusion that purchasing powers of both the sectors had increased. They demonstrated this possibility by constructing hypothetical indices in their 1980 paper which are reproduced in Table 4. Table 4 clearly shows that though terms of trade of both the sectors improved, in the case of agriculture the improvement is faster (9.7 per cent) than that of non-agriculture (6.03 per cent). Thus, despite simultaneous improvement in income terms of trade of the two sectors, agriculture has an edge over non-agriculture.

In this context, the real issue worth discussing is that in the case of two sector model estimation of income terms of trade of any one sector gives only a partial picture as it does not throw any light on the movements of income terms of trade of the other sector. Consequently, we are not able to pronounce on the changes in the relative capacities of the two sectors to import from each other. In view of this, it would be desirable to estimate income terms of trade of both the sectors where their barter terms of trade will need to be corrected with their respective volumes of exports. Thus $\frac{P_x \times Q_x}{P_m}$ would represent

income terms of trade of the agricultural sector, while $\frac{P_m \times Q_m}{P_x}$ would show income

terms trade of the non-agricultural sector. Therefore, Kahlon and Tyagi's observation that "concept of terms of trade implies deterioration in the terms of trade of one sector if it has shown some improvement in the other—because it is the ratio of the two" is valid in respect of 'net barter terms of trade',

TABLE 6: DIFFERENCE BETWEEN NSS AND CSO ESTIMATES OF PRIVATE FINAL CONSUMPTION EXPENDITURE

Items	Year	Agricultural Commodities			Non-Agricultural Commodities			Total Consumption			Value of RI	Value of RI based on Adjacent Data
		Agricultural Population	Non-Agricultural Population	Total	Agricultural Population	Non-Agricultural Population	Total	Agricultural Commodities	Non-Agricultural Commodities	Total		
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)
(1) NSS estimates (blown up) Rs crore	1961-62	5,046.52	2,464.78	7,511.30	3,018.12	1,879.18	4,897.30	7,511.30	4,897.41	12,408.71	19.8	-
(2) CSO estimates (Rs crore)	1961-62	-	-	-	-	-	-	5,778.32	6,216.98	11,995.30	-	-
(3) NSS as per cent of CSO	1961-62	-	-	-	-	-	-	129.99	78.77	103.45	-	15.8
(1) NSS estimates (blown up) Rs crore	1969-70	9,929.18	4,878.21	14,807.39	5,561.95	3,420.02	8,981.97	14,807.39	8,981.97	23,789.36	20.5	-
(2) CSO estimates (Rs crore)	1969-70	-	-	-	-	-	-	13,659.36	13,761.24	27,420.60	-	-
(3) NSS as per cent of CSO	1969-70	-	-	-	-	-	-	108.40	65.27	86.75	-	16.4
(1) NSS estimates (blown up) Rs crore	1970-71	10,252.10	5,084.28	15,336.38	5,883.86	3,709.80	9,593.66	15,336.38	9,593.66	24,930.04	20.04	-
(2) CSO estimates (Rs crore)	1970-71	-	-	-	-	-	-	14,147.32	15,143.60	29,290.92	-	-
(3) NSS as per cent of CSO	1970-71	-	-	-	-	-	-	108.40	63.35	85.11	-	16.0

Source: Kahlon and Tyagi (1980).

and not in the case of 'income terms of trade', for, the former are a reciprocal, the latter are not so.

Vittal (1986) admits this but carries the issue further. She adjusts agriculture's income terms of trade with its imports from non-agriculture and derives agriculture's relative income (i.e., purchasing power)¹⁰ by the formula $\frac{P_x \times Q_x}{P_m \times Q_m}$. Similarly, she obtains

non-agriculture's relative income by adjusting its income terms of trade with its imports from agriculture and indicates the same by the formula $\frac{P_m \times Q_m}{P_x \times Q_x}$.

Vittal derives relative exports incomes of the agricultural and non-agricultural sectors.¹¹

In fact, however, what we are interested to know (following the rationale of 'income terms of trade') is a change in relative capacities of the two sectors to import from each other and which is not the same as a change in relative exports income. In order to reflect the change in relative capacities of the two sectors to import from each other, the correct method would be to take the ratio of the indices of their income terms of trade. Thus, agriculture's relative capacity to import from non-agricultural would be obtained by the following formula:

$$\frac{(P_x \times Q_x)/P_m}{(P_m \times Q_m)/P_x}$$

Similarly, non-agriculture's relative capacity to import from agriculture would be indicated by the formula,

$$\frac{(P_m \times Q_m)/P_x}{(P_x \times Q_x)/P_m}$$

Now, how a change in relative exports income of a sector (say agriculture) is different from the change in its relative capacity to import is demonstrated with the help of Vittal's hypothetical indices which are reproduced in Table 5.

According to Vittal's scheme of things agriculture's relative income declined by 2.73 per cent while that of non-agriculture increased by 2.95 per cent. Thus, non-agriculture appears to be in better position than agriculture. This, however, is not true in respect of their capacities to import from each other. Table 5 clearly shows that agriculture's relative capacity to import from non-agriculture improved by 3.89 per cent while the relative capacity of non-agriculture to import from agriculture declined by 3.76 per cent. Thus, in terms of capacity to import, contrary to what Vittal's statistics would show, it is agriculture which is in better position than non-agriculture.¹² The foregoing discussion thus may reveal that neither Kahlon and Tyagi's objection to the concept of income terms of trade is sustained, nor is Vittal's attempt to pronounce on the relative capacities of the two sectors to import free from serious methodological inaccuracies.

Method of Estimating Marketed Surplus

Estimation of agriculture's income terms of trade along with the barter terms of trade was one of the novel features of Thamarajakshi's study. For the purpose, Thamarajakshi computed series of index number of agriculture's marketed surplus (in value terms at constant prices) to domestic non-agriculture and used these indices to correct the index numbers of barter terms of trade. According to Kahlon and Tyagi, Thamarajakshi's method of estimating agriculture's marketed surplus of products sold for final consumption is erroneous and hence the controversy.

Thamarajakshi's method has been aptly summarised by Vittal which, even at the risk of repetition is reproduced below:

From Kahlon and Tyagi's critique of Thamarajakshi's method it would be clear that they have questioned the application of ratio of non-agricultural sector's expenditure on agricultural products for final use based on NSS data to the economy's total consumer expenditure based on CSO data. Kahlon and Tyagi have argued that such a derivation could provide estimates only when the NSS blown-up estimate for agricultural products, non-agricultural products, and all products carry uniform proportionate relationship with the corresponding CSO estimates [Vittal 1986].

In order to highlight their point, Kahlon and Tyagi have constructed a hypothetical table and seek to prove that the NSS based ratios when applied to CSO estimates of private final consumption expenditure systematically overestimate the expenditure by non-agricultural sector on agricultural products for final use. This inflates the indices of agriculture's marketed surplus which, in turn, overestimates agriculture's income terms of trade. (Incidentally, Kahlon and Tyagi do not believe in 'income terms of trade' is altogether a different matter.)

Now in their attempt to obtain the 'valid estimates' of non-agricultural sector's expenditure on agricultural products for final use, Kahlon and Tyagi bring the NSS estimates in line with the CSO estimates and thereby obtain the 'adjusted ratios' (Table 6). For instance, the values of 'ratios' based on NSS data alone are 19.8, 20.5 and 20.04 per cent for the year 1961-62, 1969-70 and 1970-71, respectively. They with painstaking exercise estimate the 'adjusted ratios' of the magnitude of 15.8 per cent, 16.4 per cent and 16.0 per cent, respectively. However, while doing so, they use the CSO-based 'ratios' (ratios of economy's total expenditure on agricultural products to the economy's total consumer expenditure) and correct them by applying the NSS-based ratios (i.e., ratios of non-agricultural prod-

ucts to total expenditure on agricultural products, both NSS blown-up estimates).

Vittal, with equally painstaking exercise reworks Kahlon and Tyagi's data and find that in the three years under consideration (viz, 1961-62, 1969-70 and 1970-71) the NSS-based estimates of expenditure on agricultural commodities stand at 60.5, 62.3 and 61.5 per cent, respectively; whereas the CSO estimates turn out to be 48.2, 49.8 and 48.3 per cent, respectively (Table 7). Thus, Vittal concludes by saying that there was "about 12 per cent difference, a consistent difference, and not as Kahlon and Tyagi claim, a widening one. This difference, moreover, is one of proportion alone: the actual figures to which they are finally applied are the CSO estimates" [ibid]. Vittal's argument is valid on both the counts, viz, the difference between NSS and CSO estimates of expenditure on agricultural commodities is consistent; and secondly, what Thamarajakshi did was that she applied only the ratios to CSO estimates [Thamarajakshi 1990].

In order to discover that the NSS and CSO estimates of expenditure on agricultural commodities were consistently different, and applying any ratio whether 'NSS-based' alone or 'adjusted' to the given series of CSO private final consumption expenditure would not affect the pace of increase in non-agriculture's expenditure on agricultural commodities (the estimates in absolute terms will of course vary), was such a big and painstaking exercise really necessary?

TABLE 7: DIFFERENCE BETWEEN NSS AND CSO ESTIMATED PRIVATE FINAL CONSUMPTION (All figures in percentages)

1961-62	NSS estimate	60.5 + 39.5 = 100
	NSS estimate	48.2 + 51.8 = 100
1969-70	CSO estimate	62.3 + 37.7 = 100
	CSO estimate	49.8 + 50.2 = 100
1970-71	NSS estimate	61.5 + 38.5 = 100
	CSO estimate	48.3 + 51.7 = 100

Source: Vittal (1986).

TABLE 8: ESTIMATES OF PURCHASES MADE BY THE NON-AGRICULTURAL SECTOR OF AGRICULTURAL COMMODITIES FOR FINAL CONSUMPTION (Rs crore at 1960-61 prices)

Year	Based on NSS Data Alone	Based on RTX CSO Data (Thamarajakshi's Approach)
(1)	(2)	(3)
1951-52	1,451.70	1,374.16
1952-53	1,553.89	1,623.14
1953-54	1,482.29	1,999.75
1954-55	1,569.35	2,011.24
1955-56	1,859.69	2,186.00
1956-57	1,686.26	2,256.78
1957-58	1,719.08	2,128.35
1958-59	1,772.84	2,104.34
1959-60	1,773.35	2,125.11
1960-61	1,893.77	2,196.35
1961-62	1,962.39	2,372.75

Source: Tyagi (1988).

Table 6 (column 12) gives the ratios based on NSS data alone, while those in column 13 present the adjusted ratios worked out by Kahlon and Tyagi. There is no denying the fact that the 'adjusted ratios' are lower than the NSS-based ratios; but again, the difference is consistent, i.e. of 4 per cent.¹³ Further, what is gratifying to note is that the consistency prevailed over the period of 10 years, viz, 1961-62 to 1970-71. In other words, the pace of increase in non-agriculture's expenditure on agricultural products will remain the same irrespective of which ratios are applied to the given series of CSO estimates of private final consumption expenditure. Tyagi has reiterated that "based on NSS data alone the consumption expenditure on agricultural commodities by the non-agricultural sector during the period 1951-52 to 1961-62 increased from Rs 1,471.70 crore to only Rs 1,962.39 crore, whereas when estimated by multiplying R1 to CSO data it increased from Rs 1,374.16 crore in 1951-52 to Rs 2,372.75 crore in 1961-62 (Table 8). Thus, R1, i.e. marketed surplus would have increased at a much slower pace had Thamarajakshi used NSS data alone. The faster increase in the series based on the methodology of applying R1 to CSO is to an extent, the result of consumption expenditure on non-agricultural commodities (Cna) being attributed as consumption of agricultural commodities by the non-agricultural sector. The modified RT suggested by us was to take care of this misallocation" [Tyagi 1989].

Let us closely examine Table 8 which would enable us to comment on Tyagi's assertion. The table reveals that except in 1951-52 NSS estimates of non-agricultural sector's expenditure on agricultural products are always lower than those obtained by adopting Thamarajakshi's method of applying NSS-based ratios to CSO estimates of private final consumption expenditure. Further, over the period between 1951-52 and 1961-62 the two estimates increased at differential rates, i.e. the former at the rate of 35.18 per cent and the latter by 72.67 per cent. Thus, a faster increase in non-agricultural sector's expenditure on agricultural products in Thamarajakshi's study is not due to her method of applying NSS-based ratios to CSO estimates, as Tyagi repeatedly argues; nor, as we have argued above, Kahlon and Tyagi's 'adjusted' ratios would make any difference for the rate of such increase. The faster increase in non-agricultural sector's expenditure on agricultural products in Thamarajakshi's study can be attributed to the inclusion of the years 1951-52 and 1952-53 in her study. In fact, Kahlon and Tyagi had mentioned this point in their 1980 paper. They had then argued that "the consumption expenditure data of NSS fourth and fifth rounds used in these studies are

not comparable with the data from the subsequent rounds owing to the differences in the reference period and method of evaluating the home-grown components... The effect of the use of fourth and fifth rounds data in various studies (such as Thamarajakshi's) has been that while for 1951-52 and 1952-53 (based on fourth and fifth rounds) the value of RT worked out at 16.24 and 16.92 respectively; it jumped to 18.93 in 1953-54 and to 19.34 in 1954-55. These ratios when multiplied with CSO's estimates of total consumption expenditure gave underestimates of the consumption of agricultural goods by the non-agricultural sector in the base year. Thus, while the estimates for the base year got underestimated, those for the terminal year got inflated. In fact, it is a consequence of this distortion that the rate of growth in the marketed surplus of agricultural sector obtained by the Thamarajakshi (1969, 1977) and Venkataraman (1979) turn out to be so high.¹⁴ Tyagi repeated this point in his 1988 paper without much emphasis, while Vittal refused altogether to pay any attention to it. Consequently the ratios—'adjusted' and 'unadjusted'—dominated the controversy.

After suggesting that the commencing of series of estimates of non-agricultural sector's expenditure on agricultural products for final consumption from the year 1951-52 may (probably) be the main reason for the distortion in its rate of increase, it is now imperative to examine the same in detail. For the sake of convenience, we reproduce the relevant information given by Thamarajakshi in Table 9.

Firstly, we find that Thamarajakshi's controversial 'ratios' applied to the CSO esti-

mates of private final consumption expenditure are quite comparable over the period 1953-54 to 1965-66 as they move from 18.93 in 1953-54 to 19.26 in 1965-66. The same is, however, not the case in respect of 1951-52 or 1952-53 when the 'ratios' were 16.24 and 16.91 respectively (column 3). Consequently, to begin with, the estimates of non-agricultural sectors' expenditure on agricultural products for final consumption at current prices (gross of imports) turn out to be smaller, i.e. Rs 1,532.23 crore in 1951-52 and Rs 1,582.62 crore in 1952-53 (column 4).

Secondly, except 1964-65 and 1965-66 the expenditure on imports of 'cereals, fruits and vegetables' was highest in 1951-52, i.e. Rs 251.10 crore. The same was of the order of Rs 170.49 crore in 1952-53 (column 5). Thus, the non-agricultural sector's expenditure on agricultural products 'net of imports' got further reduced to Rs 1,281.13 crore in 1951-52 and Rs 1,412.13 crore in 1952-53 (column 6). This is how the estimates of agriculture's marketed surplus for final consumption at current prices in the base (i.e. 1951-52) year turn out to be much smaller. This would not be the case if the series begins from 1953-54 when the estimates turn out to be Rs 1,787.18 crore.

Thirdly, Thamarajakshi (1969) stated in her study that "the time series of the value of the marketed surplus of agricultural products for final use have been deflated with the composite index number of wholesale prices paid by the non-agricultural sector to agriculture for the purchase of products for final use".

To facilitate the discussion we present in Table 10 a series of such composite indices

TABLE 9: ESTIMATES OF MARKETING SURPLUS

(Value in Rs crore, at current prices)

Years	Private Consumer Expenditure	Percentage of Expenditure by Non-Agricultural Sector on Agricultural Products to the Economy's Total Consumer Expenditure	Non-Agriculture's Expenditure on Agricultural Consumption Products (Gross of Imports)	Imports of Cereals, Fruits and Vegetables	Marketed Surplus of Agriculture For Final Consumption
(1)	(2)	(3)	(4)	(5)	(6)
1951-52	9,432	16.2450	1,532.23	251.10	1,281.13
1952-53	9,354	16.9192	1,582.62	170.49	1,412.13
1953-54	9,865	18.9331	1,867.75	80.57	1,787.18
1954-55	8,783	19.3425	1,698.85	84.83	1,614.02
1955-56	9,012	18.7380	1,688.67	56.71	1,651.96
1956-57	10,247	19.5667	2,005.00	27.38	1,977.62
1957-58	10,586	19.0324	2,014.77	79.89	1,934.88
1958-59	11,641	19.2215	2,237.58	176.59	2,060.99
1959-60	11,894	19.2016	2,283.84	167.23	2,116.61
1960-61	12,652	18.9544	2,398.11	201.76	2,196.35
1961-62	13,378	18.9888	2,540.32	132.45	2,407.87
1962-63	13,822	19.0600	2,634.47	162.31	2,472.16
1963-64	15,410	19.1253	2,947.20	198.25	2,748.95
1964-65	18,677	19.1965	3,585.33	307.76	3,277.57
1965-66	18,716	19.2677	3,606.14	331.82	3,274.32

Source: Thamarajakshi (1969).

of wholesale prices which were used by Thamarajakshi as deflator. It becomes clear that, on the one hand, agriculture's marketed surplus for final consumption at current prices increased from Rs 1,281.13 crore in 1951-52 to Rs 2,407.87 crore in 1961-62, i.e., by 87.95 per cent (Table 9, column 6); on the other hand, during the same period the deflator rose from 93.23 to 101.48, i.e., only by 8.25 per cent (Table 10, column 3). Thus a very sluggish increase in the deflator compared to a phenomenal rise in marketed surplus at current prices between 1951-52 and 1961-62 resulted in underestimates of agriculture's marketed surplus (at constant prices) in 1951-52 (Rs 1,374.16 crore) and considerable overestimates in 1961-62 (Rs 2,372.75 crore) giving a rise of 69.10 per cent [Thamarajakshi 1969, Table 8].

In order to reinforce our point further, let us compare the situation in 1953-54 to that in 1961-62. It would be observed that the increase in marketed surplus at current prices comes to 34.73 per cent (i.e., from Rs 1,787.18 crore in 1953-54 to Rs 2,407.87 crore in 1961-62), while the deflator rose by 16.91 per cent (i.e., from 89.37 to 101.48 during the period). Consequently, between 1953-54 and 1961-62, the marketed surplus (at constant prices) registered a relatively modest increase of 18.65 per cent (it increased from Rs 1,999.75 crore in 1953-54 to Rs 2,372.75 crore in 1961-62 [ibid]).

The foregoing would enable us to reiterate our view that the faster increase in the estimates of non-agricultural sector's expenditure on agricultural products in Thamarajakshi's study (i.e., volume of agriculture's marketed surplus) did not re-

sult from the application of NSS-based ('unadjusted') ratios to CSO's private final consumption expenditure, neither Kahlon and Tyagi's 'adjusted' ratios would do any difference to them, for, the two ratios maintain a consistent difference. The true reasons for such a phenomenon lies in the fact that the Thamarajakshi's series of marketed surplus begins from 1951-52.

CONCLUSION

Though we share the view that issues of inter-sectoral terms of trade are the issues of the political economy, the purpose of this paper was to examine the major issues involved in the debate on the methodology of estimating inter-sectoral terms of trade in India. Thus, the foregoing discussion would lead broadly to the following:

(i) The ratios of wholesale prices of agricultural and non-agricultural products cannot yield the realistic estimates of agriculture's terms of trade.

(ii) The accuracy of the estimates of terms of trade, among other things, depends upon the comprehensiveness of the pattern of trade between the two sectors. It is thus imperative that as many products as possible of those actually exchanged should be included in the inter-sectoral shopping list.

(iii) In the estimation of terms of trade the relative rates of change in the prices received and paid by agriculture are as important as the direction of their movements.

(iv) Since the bulk of the marketable surplus of agricultural produce is disposed of during the harvesting period, analytically farm harvest prices, and not annual wholesale prices, are better indicators of prices

actually received by the producers. However, farm harvest prices are likely to underestimate the prices received by producers and the extent of underestimation will depend upon the level of non-harvest market prices and the quantity of marketable surplus disposed at those prices, i.e., the prices prevailing and quantity sold during the rest of the period. In this context, it would be appropriate and hence desirable to adjust the prices received by the producers against the respective quantities of marketable surplus sold by them.

(v) As an analytical tool the commodity or net barter terms of trade measures the capacity to import (purchasing power) of a unit of exports in terms of imports, and hence, fails to reflect the total capacity to import (i.e., purchasing power accruing) due to a change in the volume of exports. The income terms of trade which are obtained by correcting the net barter terms of trade with the volume of exports reflect the total capacity to import (due to export income alone) and, are therefore superior to net barter terms of trade. Thus, an improvement in the income terms of trade of the agricultural sector consequent upon increase in volume of its marketed surplus would indicate an increase in its total purchasing power, and this may happen despite less favourable or even unfavourable net barter terms of trade to agriculture.

(vi) The high rate of growth in the volume of agriculture's marketed surplus in the Thamarajakshi's study results from the fact that her series begins from small base of the year 1951-52 and not from her methodology of estimating agriculture's marketed surplus are Tyagi consistently and vociferously argued.

TABLE 10: COMPOSITE PRICE INDICES

(1960-61 = 100)

Years	Agricultural Products Purchased by Non-Agriculture for Intermediate Consumption	Agricultural Products Purchased by Non-Agriculture for Final Consumption	All Agricultural Products Purchased by Non-Agriculture	Non-Agricultural Products Purchased by Agriculture for Intermediate Consumption	Non-Agricultural Products Purchased by Agriculture for Final Consumption	All Non-Agricultural Products Purchased by Agriculture
(1)	(2)	(3)	(4)	(5)	(6)	(7)
1951-52	99.13	93.23	95.44	81.65	96.50	94.76
1952-53	74.91	87.00	82.46	85.65	82.85	83.18
1953-54	82.66	89.37	86.85	84.46	83.62	83.72
1954-55	76.54	80.25	78.86	82.60	81.11	81.28
1955-56	70.92	75.57	73.83	82.86	77.24	77.90
1956-57	83.17	87.63	85.96	87.57	83.41	83.90
1957-58	83.56	90.91	87.99	91.59	89.07	89.37
1958-59	83.95	97.94	92.69	94.23	90.77	91.18
1959-60	89.62	99.60	95.86	96.98	93.92	94.28
1960-61	100.00	100.00	100.00	100.00	100.00	100.00
1961-62	98.64	101.48	100.41	102.84	99.31	99.72
1962-63	96.42	105.28	101.96	107.15	102.33	102.90
1963-64	101.10	112.54	108.25	111.86	111.06	111.15
1964-65	117.53	132.43	126.84	117.58	116.62	116.73
1965-66	132.42	141.64	138.18	125.42	120.08	120.71

Source: Thamarajakshi (1969).

Notes

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1 Thamarajakshi subsequently estimated agriculture's terms of trade for the period 1970-71 to 1983-84 with the base 1970-71 = 100 [Thamarajakshi 1985], and again for the period 1951-52 to 1987-88 with the base 1978-79 = 100 [Thamarajakshi 1990].

2 Among others such scholars include Thingalaya (1965), Mellor and Dar (1967), Shetty (1971), Sidhu and Singh (1979), Dantwala (1967 and 1976), and Mitra (1977).

3 Only Dantwala explicitly noted that the ratio of wholesale prices should not be "strictly termed as terms of trade in as much as the weights used in the composition of wholesale prices would be very different from the weights of the commodities entering the trade between the two sectors"

Appendix

INTERSECTORAL EXCHANGE OF GROUPS OF PRODUCTS FOR INTERMEDIATE AND FINAL CONSUMPTION 1951-52 AND 1960-61

(Value in Rs crore; at constant 1960-61 prices)

	1951-52	1960-61	Per Cent Increase
1 Imports by agriculture for intermediate consumption	302.48	420.47	39.0
2 Imports by agriculture for final consumption	2,673.93	3,163.67	18.3
3 Total Imports by agriculture	2,976.41	3,584.14	20.4
4 Exports by agriculture for non-agricultural intermediate consumption	966.69	1,319.12	36.4
5 Exports by agriculture for non-agricultural final consumption	1,373.59	2,196.34	59.2
6 Total exports by agriculture	2,340.28	3,515.46	50.2
7 Agricultural exports; imports (final)	0.51	0.70	35.2
8 Agricultural exports; imports (total)	0.79	0.98	24.8
9 Agricultural exports for non-agricultural final consumption; imports by agriculture for intermediate consumption	4.54	5.22	15.0

Source: Vittal (1986).

Dantwala (1967).

4 For instance, as per Thamarajakshi's own estimates, in 1960-61, the share of coffee, hides skins, and wool in the total value of sales by agriculture was 0.03, 0.77, 0.44, and 0.29 per cent respectively [Thamarajakshi 1969].

5 Despite the omission of capital formation items from the inter-sectoral shopping list the Thamarajakshi's series show that terms of trade moved against agriculture since 1974-75. This may be mainly attributed to the overwhelmingly larger weight of products purchased by agriculture for final and intermediate consumption in the construction of prices paid index. For instance in Kahlon and Tyagi's study, capital formation items as a group are given the weight of 8.77 per cent [Kahlon and Tyagi 1983]. According to us even these weights are overestimated. In our own study on intersectoral terms of trade all capital formation items together could command weight only of 2.12 per cent in 1961-62 and 2.13 per cent in 1971-72. For details, see Mungekar (1992).

6 Ideally, the share of each state in the total (i.e., all-India) marketed surplus of a crop should have been used as weight. Since such statewise estimates of marketed surplus are not available the statewise shares in all-India production have been used. In all probability, this would, at least to some extent, the validity of the estimates of agriculture's net barter (and hence income) terms of trade; because there is no evidence to postulate a proportionate relationship between a state's share in production and that in the marketed surplus of a crop. In this context, see Vittal (1986).

7 See Vittal (1988, Table 4).

8 This may not be strictly true in the case of each and every crop, and should serve only as a broad generalisation.

9 A consistently uniform difference would

leave the rate of change unaffected.

10 In this context Vittal (1986) writes: 'The income terms of trade of the agricultural sector can be further adjusted in view of its imports from the non-agricultural sector (i.e., the latter's indices of exports). Thus, we obtain the agricultural sector's purchasing power by the formula $P_x \times Q_x$.

--- $P_m \times Q_m$

11 It is in this context that Vittal's attempt to take the ratios of Thamarajakshi's estimates of agriculture's exports and imports for the years 1951-52 and 1960-61 and to show the changes in agriculture's relative income needs to be examined. Further, what is disquieting about Vittal's relevant exercise is that he reproduces Thamarajakshi's estimates of inter-sectoral exchange of products correctly, but explains the pattern of exchange in exactly opposite way. Vittal says thus:

"Her (Thamarajakshi's) third conclusion concerns the pattern of intersectoral flows and is based on a comparison of 1951-52 and 1960-61 for value at (1960-61) constant prices. Table 6 (our Appendix) demonstrates that in both years the value of agricultural sales exceeded the value of its purchases from the non-agricultural sector though by 1960-61 this excess has diminished. In 1951-52 agricultural sales were Rs 2,976.41 crore and purchases Rs 2,340.28 crore. By 1960-61, sales were Rs 3,584.16 crore and purchases Rs 3,515.46 crore" [Vittal 1986].

The Appendix clearly shows that it was the purchases (imports) of agriculture, that exceeded its sales (exports) in both the years and not vice versa (Compare rows 3 and 6 in 1951-52, and 1960-61). In 1951-52, agriculture's purchases were Rs 2,976.41 crore and not sales, as Vittal argues, while sales were Rs 2,340.28 crore. The same was true for 1961-62, i.e., purchases and sales were Rs 3,584.14 and Rs 3,515.46 crore,

respectively. In fact, what happened was that the agriculture's sales registered a faster increase than its purchases. The former increased by 50.2 per cent while the latter by 20.4 per cent. Thus, Vittal promptly converts Thamarajakshi's estimates of agriculture's sales into purchases and vice versa ignoring altogether its implications.

12 For Kahlon and Tyagi's criticism, see Vittal (1986 and 1988).

13 Vittal (1988, Table 6) proves this by working out the differences between rates of growth in Thamarajakshi type 'NSS-based ratios', and Kahlon and Tyagi's 'adjusted ratios' between 1961-62 and 1969-70 and between 1969-70 and 1970-71.

14 For the factors that affected the comparability of consumption expenditure data of various NSS rounds, see: Roy Choudhury (1966).

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Tibet and Empire

Nigel Harris

After 34 years of occupation, there is more openly-expressed hostility to Beijing in Tibet than ever before.

TIBET may be going to be as disastrous for China as Kashmir has been and continues to be for India. The threat is still only a small cloud in the distant sky, but too often in our times, these small clouds become typhoons.

History is so unfair. The government has become much more liberal politically in Tibet, and economic liberalism suits the instincts of the Tibetans perfectly. Yet the more tolerant the regime becomes, the greater the degree of overt discontent. After 34 years of occupation, there is more openly expressed hostility than ever before. Everywhere, the portrait of the Dalai Lama mocks Beijing—the officials know full well that this supposedly innocent religious identification is political rebellion; in some of the holiest places 'Free Tibet' stickers appear mysteriously. Many young men now ape the Khampa red braid, woven into their uncut hair, and carry the sword; the Khampas were—not without CIA help—the most ferocious opponents of Chinese rule. Now they stand, like Cary Grant on Main Street, laconic in supposedly deadly strength, or ride across the wide treeless landscapes, stetson pulled down over the eyes.

Each year since the major confrontation in 1987, there is renewed agitation, usually led by monks, alarming the tourist trade (or inspiring some, who long for national independence wherever it occurs) and fluttering the sleeping doves of Washington. This year Amnesty estimates two were killed and 200 imprisoned; Tibetan sources give much higher figures (for example, over 1,000 arrests).

The Chinese, like many imperial powers, might feel justly hurt by this rank ingratitude. They might agree that the 1959 conquest devastated the economy of the country, and the Cultural Revolution was peculiarly cruel in destroying the monasteries, great fortresses and ancient remains, and by so doing, made the ruins vital to Tibetan identity. The economy was reduced to dependency. According to official claims (in *China Daily* for May 21, perhaps timed to coincide with the demonstration season and influence foreign opinion), the Autonomous Region could not start producing a net income until 1988 (two decades after the high point of the Cultural Revolution).

However, there is liberalisation—the household responsibility system in agriculture, and a considerable freeing of the urban economy. Furthermore, in recent years, the government claims, 1 billion yuan (\$175 million) has been pumped into the region, a

sum in per capita terms higher than that into any of the other 30 provinces, municipalities and autonomous regions in China—cumulatively, 20 billion yuan (\$3.5 billion) in four decades (Beijing dates its administration from 1951).

These sort of figures are always notoriously suspect, and easily changed into their opposite in skilful hands. But the signs of development in a very backward area are apparent—indeed, it may be the development itself which has raised expectations to well beyond what the Chinese can deliver. The farms, at least in the central areas of the region, are prosperous, the herds large and healthy. There is even some modest manufacturing. In the cities, motorbikes and small tractors, the bustle of markets, suggest incomes are buoyant—even if the village houses still have earth floors and outside wells, there are no consumer durables such as you might see in the more prosperous Chinese villages, and peasants still spin and weave their own clothing. Village primary schools are, where they exist, poorly attended, and the higher education system favours, it is said, those who speak the dominant language, Chinese; Tibetan language and culture is studied by Tibetans; the Chinese dominate physical and natural sciences, an entry point to return to China. In infrastructure, there are some major achievements, knitting the region together by telephone, electricity and dirt road.

Those unsung heroes, the Chinese road engineers, have cut, dug, blasted and drilled tracks and roads over some of the highest passes in the world, the routes snaking away over mountains as far as the eye can see. Equally unsung—but less likely to be even noticed—is the vast army of men, women and children, ragged in the monsoon rains, breath steamy with cold and the smoke of wet cigarettes, who dig and haul and hump the earth to make the roads. Since road building in China is designed to have a low capital cost, highways are subject to rapid depreciation—in the rains, water courses endlessly slice up the roads or precipitate landfalls. The ruts wreck vehicles (and passenger teeth). Thus keeping the roads open requires the army of workers to continue work; and the road budget is a perpetual Keynesian pump primer in the rural areas. Once the roads are opened, the buses and trucks roar and groan over the passes, swaying like prehistoric monsters, risking life and limb. But, of course, like the Indian view of the British Grand Trunk Roads,

Tibetans see road development not as liberation from the tyranny of one place, but as the Chinese making sure their troops can move easily about to control the country (or, at best, to encourage tourism).

The two sides lead strangely isolated lives, each with a quite distinct cultural style—language, dress, diet, religion, way of life. Urban Tibetans cluster in rabbit warrens of narrow streets separating low courtyard houses, the animals within. The Chinese are consigned to all the horror of Stalinist new towns, grey barracks lining enormously wide streets without traffic, arranged by some maniac in rigid grid form. They are sullen prisons even when some adventurous architect has tried to offer a touch of humanity by including, in cement, something from local traditions. Many of the Chinese have been drafted 'voluntarily' into Tibet and hate it, hate its manic depressive climate, its emptiness, its 'backwardness'. They console themselves with earning higher rates of pay and saving for their return to China; despite official regulations, they do not learn Tibetan and avoid almost all contact. Even those who are well intentioned—parties to, or the offspring of, Tibetan-Chinese marriages—find at various times the strains of collective loyalty intolerable.

It is now said that, with the reforms in China and new opportunities in Tibet, spontaneous migration is taking place—migrants come looking for opportunities to make money. It is said they have taken over most of the jobs for artisans and man the masses of markets stalls, restaurants and repair units along the main streets of the Chinese towns. The Dalai Lama says that immigration is making Tibetans a minority in their own land, as it did to Mongolians in Inner Mongolia (the problem, Tibetans say, is much exaggerated by the loss of important Tibetan areas in the east and north to neighbouring Chinese provinces). Furthermore, the police are said to be quick to search out and expel unauthorised Tibetan migrants to the city from the countryside, but pay no attention to those who move without permission from China to Tibet.

The Cultural Revolution was undoubtedly a disaster for Sino-Tibetan relations. The destruction of the region's peculiar cultural inheritance was an act of such extraordinarily mindless vandalism that it is difficult to know how many decades Tibetans will take to recover from it. Like the Shah whose idiocy drove all the opposition into the arms of Khomeini, Chinese anti-religious policy has succeeded in turning a group of co-worshippers, historically divided into warring factions, into a nation with a common symbol of, if not the King over the Water, the Lama over the Mountain. The Tibetans are drenched in adoration for the Dalai Lama—and foreign rule pushed them into praising Lamaist Buddhism, mani-

fest warts and all. Now all that is warm and human has become religion and tradition—much as occurred in the dying years of the countries of the Eastern Bloc. The prayer flags and wheels, the giant graffiti on the mountain sides, the perpetual pilgrimages and circumambulation round religious sites, all testify to the abiding religiosity—if not piety—of the Tibetans. It is a religion of passionate routines, not cogitation, of rituals rather than theory—in the famous Sakya monastery, there are 84,000 Buddhist works, not to be read but to be worshipped as the repository of wisdom.

The Chinese see all this as 'backward' and many hate it. It is the foolish illusion of the foreign ruler to see themselves as the embodiment of a superior civilisation, the voice of an advanced way of life. But the division is no more than a sign of the insecurity of the claims of those who rule, the need to classify what is culturally tolerable in order to reject the possibility that the intolerable might have merit. The appalling cruelty of the Red Guards was thus to demonstrate their own credentials, not change Tibetans, to affirm a loyalty (and substitute Chairman Mao as a godhead for the Buddha). Cromwell's men, breaking up English church windows, would have known what this was about: blooding the cadre.

The Red Guards knew nothing of Marx. They might have heard of the phrase, 'religion is the opium of the people', but not what followed: 'the heart of a heartless world'. To seek to destroy a people's heart without any equivalent substitute was a terrible thing to do; it made religion clandestine and, therefore, the pre-eminent vehicle for a clandestine nationalism. The monasteries were demolished, the monks dispersed—in some of the larger foundations, there were up to 12,000 of them.

The major monasteries are rapidly being rebuilt in the original style, and they have recruited both old monks and new acolytes (up to 500 or so in larger monasteries). It will only increase the opposition. Tibetans say both that the monasteries are being rebuilt solely with voluntary contributions by the laity (except at Shigatse and that is because the Panchen Lama was a quisling, and married and lived in Beijing), and that the Chinese government is rebuilding them only to develop the tourist trade; they point to at least one monastery housing the People's Liberation Army.

Tibetans kept their heart, and remain remarkably open and friendly. In the great harvest festivals of August, they turned out in their finery in thousands, with spectacular tented pavilions and thousands of trading stalls—to buy and sell, gossip, drink butter tea and get drunk on gallons of chang (a barley beer), to watch yak and pony races, musicians and operas. Men carried round stripped sheep carcasses for sale, and there

were drummers and pipers and dancers (in Shigatse, a portrait of Chairman Mao bizarrely presided over the proceedings). The women are bold eyed, with frank derisive smiles, but they say the sinification of the upper class Tibetans is leading to young women, in the presence of men, tittering nervously behind their hands; sometimes one might have imagined one was in La Paz, with women in long black gowns, flowered waist-coats, a long plait and a pork pie hat, but the famous wrap-around Tibetan skirt betrayed the place. Sometimes nomads appeared from long sojourn herding animals in the northern deserts, a great heap of dark clothes, one shoulder free with battered black hats, faces wild, merry and innocent. But alongside the joking and drunken jollity, everywhere there were plain clothes policemen, with rifles, as well as the ordinary police. Even in loyalist Shigatse, soldiers on a hill kept the town under watch, and there was a sound of machine gun practice from the hills.

Why does China want Tibet? Leaving aside all the historical claims (and the rubbish of 'sacred motherland', etc) which governments invent as they wish (in any case, it is an absurd principle that past practice should, regardless of circumstance, govern present arrangements), it was reasonable before 1947 to be suspicious of British influence in Lhasa, and then and in the 1950s, Washington might well have sought influence there. But not only has the technology changed—Washington can lay waste any area of the world without holding or influencing adjacent territories—the poli-

tics have been transformed. Neither the US nor Russia have any interest in Tibet. Only Delhi might try to continue the mischief of the Great Game, but even that is pretty unlikely—it has its hands full elsewhere. Holding Tibet is expensive, both in direct subsidies and the cost of the civil administration (Tibetans believe government officers in Tibet are paid three times what they earn in China proper) and of the military forces. Could it possibly be justified by the marginal gains of offsetting a remote Indian threat? The political costs abroad are also not insignificant. And holding it can only get more expensive, especially if those young men with Khampa braids decide the Dalai Lama's message of peace and talk is far too slow for their lifetime, and bombs must be thrown, guerrilla raids organised and so on.

But you might as well ask why India wants Kashmir. There the occupation has been far longer and bloodier. How many more barbarities must be inflicted on the young men of both sides and on innocent bystanders before common sense breaks through in the South Block or in the Lok Sabha? Will it ever? After all, the British are still in military occupation of Northern Ireland and that has never made any sense in whatever passed for a British 'national interest', even though the war has virtually no echo in the population at large. There is a senselessness about these occupations which is in startling contrast to the supposed rationality of the participants. In the Soviet Union, only the breakup of the state could free the famous 'prison of peoples'; must that also happen elsewhere?

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Reflections on the Status of Planning

Nirmal Mukarji

Decentralised Planning: The Karnataka Experiment by Abdul Aziz; Sage Publications, New Delhi, 1993; pp 259, Rs 250.

I

Demise of Central Planning

PLANNING may well be on its way out, at least in the centralised form we have known it so far. Two processes, disparate in their origins and objectives but convergent in time, are responsible for this. One is the new economic policy, which explicitly aims to make market forces rather than planners determine how national resources should be deployed, especially in the organised sector of the economy. The other is the new political policy, if one may call it that, underlying the constitutional amendments requiring panchayats and municipalities to function as institutions of self-government, specifically in regard to planning for economic development and social justice.

The common feature in the two processes is decentralisation, to the market in the one case and to lower levels of governance in the other. Both processes could turn out to be irreversible, because of the pressure of global forces in the first case and of people's power in the second. If and when the two processes find fulfilment, there may be little room left for central planning. In that event, we may have to think of the hitherto unthinkable: either winding up the Planning Commission or, at least, drastically altering its role.

Ironically the seeds of demise, assuming that such an eventuality is in the offing, were sown at the very introduction of planning. Nehru was inspired by the Soviet experience of five-year plans which had enabled the fledgling Soviet state to lift itself up by its bootstraps. Therefore, although ours was a mixed rather than a centrally controlled economy, what we adopted was central planning more or less of the Soviet model. Central planning went well with the unitary autocracy the Soviets ran. It did not harmonise with our parliamentary democracy and federal polity.

Two contradictions were thus built into our system of planning from the beginning. One was between the Planning Commission and the central ministries, whose political heads were accountable to parliament. The other was between the Commission and the state governments, which were autonomously responsible to their own legislatures. So long as there were giants like Nehru and Mahalanobis around, the plan-

ning 'experts' got the better of the 'politics' in charge of the central ministries and the state governments. As soon as they departed the reverse process started.

There were, of course, other reasons also for the decline that set in. In a democracy there has to be an across-the-board consensus on the need for, and the broad objectives of, central planning. This was very much there in the early years. But it began to melt away in the 60s, which in many ways were years of disillusionment. There was the humiliating defeat at the hands of the Chinese in 1962. The monsoon failed for three successive years. Foreign exchange problems became acute, causing the rupee to be heavily devalued, thereby occasioning tremendous loss of face for the country.

So far as planning was concerned, the Third Plan faltered badly, followed by three non-plan years euphemistically called plan holidays. Politically, the watershed year of 1967 saw the end of Congress hegemony which for 20 years had ensured the required consensus to uphold central planning. The arrival of non-Congress governments in several states, short-lived though these were in many cases, decisively altered the politics of the country. The comfortable consensus on planning that had obtained till then began to fracture. It has been a downhill journey for central planning ever since.

It is worth recalling that, to begin with, central planning was hailed as the only way free India could hope to replicate the Soviet Union's 'bootstrap' miracle. As a civil servant in Punjab, for instance, I was enormously impressed by the successful completion of the Bhakra-Nangal project, the creation of the beautiful city of Chandigarh and the speedy consolidation of peasants' holdings which laid the foundation of Punjab's agricultural progress. Not one of these achievements would have been possible under British rule. Each of them owed its success to fruitful co-operation between understanding planners at the centre and eager implementers in the state.

Punjab's happy experience was largely due to the centre's generosity. That in turn was the outcome of its status as a major sufferer of partition (the other being West Bengal) and its capacity to conceive and implement bold programmes. Experience elsewhere was less happy. Nevertheless there was widespread satisfaction that, under cen-

tral planning, the country was beginning to advance, especially in the matter of acquiring basic industrial muscle. The 50s were very much a decade of hope.

All too soon, central planning led to over-centralised functions. This took the form of over-regulation in the case of industry and trade, which stifled initiative and entrepreneurship and had the unintended effect of producing such inefficiency in both public and private sectors that neither could be effectively competitive in the international market. In the case of the states, it took the form of an array of central, centrally-aided and centrally-sponsored schemes, which left very little room for innovative state-specific thinking on the part of the state governments.

I was Punjab's planning commissioner when its Third Plan was being formulated. I found that, instead of identifying the state's priorities, our working groups were busy locating schemes on offer from the centre that would fetch us the most central aid. Over-centralisation had already begun to freeze independent thinking in the states. To an extent it did so in the central ministries also. Both looked to the Planning Commission to think for them and the Commission obliged by sprouting its own bureaucracy of advisers on every conceivable subject. This over-centralisation of planning invalidated whatever justification there was in central planning.

At the root of this distortion was the financial clout the Planning Commission wielded from the beginning *vis-a-vis* the central ministries and the state governments. It seems the founding fathers of Indian planning did not have much faith in mere consensus and therefore felt it necessary to arm the Commission with a financial whip. The budgets at the centre and in the states were split into plan and non-plan and the Commission made the arbiter for the plan portions. Its 'thinking' was thus buttressed by the power to allocate or refuse funds.

In the case of the states, the Constitution-makers had provided for five-yearly Finance Commissions to adjudicate the quantum and distribution of financial devolutions from the centre. But these commissions retreated into non-plan shells, leaving the plan field clear for the Planning Commission. Willy-nilly, the states had to accept the wisdom of this body in regard to the

size of their plans as also its spread over rigidly defined heads and sub-heads. Every year a meaningless exercise had to be gone through, involving hundreds of man-hours of central as well as state experts being wastefully used up in meetings of sector-wise working groups.

This deadening system persisted over the many plan periods till now, squeezing the life out of central planning and leaving only the bare bones of a ritualistic procedure. The only time, to my knowledge, someone dared to break out was when R K Hegde was the deputy chairman of the Planning Commission and I was Punjab's governor under presidential rule. The state's annual plan for 1990-91 saw two departures: there were no working group meetings and, secondly, the state was left free to decide how the agreed plan funds should be spent, subject only to minimum conditionalities of a general nature. Unfortunately this innovation remained confined to Punjab and that particular year.

If we are now witnessing the virtual demise of central planning (some would say it is already dead), we need to think what shape the idea of planning should take in the new economic and political scenario. In the short term, so far as the states are concerned, it is suggested that we should consider moving in the direction of what may be called the Hegde-Mukarji formula, with the stipulation that the states should adopt the same approach *vis-a-vis* the third stratum of self-governing panchayats and municipalities. For the organised sector, the Planning Commission should try to evolve some form of indicative planning suited to Indian conditions.

Looking beyond, more fundamental change will be required. The Planning Commission will need to be relieved of the task of allocating plan funds. The distinction between plan and non-plan funds and budgets itself will have to go. So will the very idea of centrally-sponsored schemes. The finance ministry alone would then be the dispenser for central ministries and periodic Finance Commissions for the states. The latter will need to come out of their self-imposed non-plan cage and deal with the entirety of concerns not only of the states but also of the third stratum. The feasibility of writing into the Constitution the percentages of central resources that must devolve to the states and the third stratum will need serious consideration.

The Planning Commission must then switch to the planning of policy on basic issues confronting the country rather than nitpicking on how much to spend on what. Sustained work in this neglected policy arena could become the basis for indicative planning, which in turn could provide the central ministries, the states and the third stratum, as well as the organised

sector, useful guidelines to base their own thinking on.

II

Future of Decentralised Planning

Will the decline of central planning mean sunset for decentralised planning also? Or will there be a contrary effect rejuvenating local planning and, in the process, giving it a sunrise character?

It is not uncommon in human affairs for action and rhetoric to point in opposite directions. A glaring example is the Second Plan, which in fact was the mother of central planning but yet could discuss local horizontal planning. The Third Plan could similarly dwell on the methodology for planning rural development based on district and block plans. The arrival of panchayati raj could make 'planning from below' a popular slogan. By 1969, the Planning Commission could even issue guidelines for district planning. Since central planning remained undented throughout, little of this rhetoric percolated to the ground. Decentralised planning thus remained an illusory concept.

The climate changed when the Janata Party came to power in 1977. There was, firstly, a revulsion against the over-centralisation that the Emergency represented. Also, the new government did not consider itself as committed to Nehruvian central planning as its predecessor governments. Decentralisation, therefore, came positively on its agenda. Its newly constituted Planning Commission appointed a working group on block planning under the chairmanship of M L Daniwala. Simultaneously, a committee was set up under Asoka Mehta to revitalise panchayati raj with the declared objective of "maximum degree of decentralisation, both in planning and in implementation". The Janata government did not last long enough to see these initiatives through.

On its restoration in 1980, the Nehru-Gandhi dynasty treated the Janata period as worthy of cancellation from history. But the concept of decentralised planning somehow survived, perhaps because it had originated in the high noon of Nehruvian rule. A working group on district planning came to be appointed under C H Hanumantha Rao, quickly followed by a committee on administrative arrangements for rural development under a distinguished civil servant, G V K Rao. To their credit, these groups carried the previous thinking forward rather than rejecting it. Decentralised planning was to mean area-based sub-state planning supplementing central and state plans and, importantly, was to be the responsibility of the panchayats.

According to the Hanumantha Rao report (1984), the states differ widely in their experiences "along a centralisation-

decentralisation continuum". It could identify only five states that had taken "some strides". The decentralisation process was similar in most of these. After the state budget is voted, the heads of departments are required to make a district-wise break up of their plan outlays in the budget. This is communicated to the districts, usually four-five months after the commencement of the financial year. The district plans that emerge are "purely an aggregation of departmental schemes". "Very little planning in the real sense [takes] place at the district level".

The problem faced by all the distinguished groups and committees, as also by the states that have taken some strides is akin to squaring the circle. For, the grip of central planning is too tight for any genuine decentralisation to take place. The most that can be done is to 'nest' (the word comes from the Hanumantha Rao report) local plans in district plans, and so on till the central plan. An illusion is thereby created that this is bottom-up planning. But, in fact, it is only another method of implementing central planning, because eventually it is the state and central planners, in that sequence, who have the last word.

The truth is that planning cannot really be decentralised within a regime of strict central planning. This is well brought out in Abdul Aziz's admirable study of the Karnataka experiment in decentralised planning under Janata rule. The experiment remains perhaps the most sophisticated effort made by any state so far, unfortunately

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terminated abruptly by the successor Congress government. Karnataka seemed to have done all the right things. It set up panchayats as per the Asoka Mehta report. It demarcated the planning jurisdictions of the state and the districts. It strengthened the planning machinery in the districts. It even made the district development bureaucracy accountable to the panchayats. It innovated a state development council, as also a state finance commission.

Yet the outcome was depressing. In 1988-89, which was effectively the first year of decentralised planning, Rs 240 crore out of the state plan of Rs 920 crore were set aside for the districts. Of this, as much as 86 per cent went to items over which the panchayats had no control, such as salaries, matching outlay for centrally-sponsored schemes, spill over works and committed ongoing schemes related to scholarships, hospitals, schools, etc. Local planning had thus to be squeezed into the balance 14 per cent. The study rightly concludes that "the system of earmarking of resources adopted by the Planning Commission (for centrally-sponsored schemes) and the state planning departments (for schemes sponsored by the state government) severely restricts the room available for local initiatives". It pleads for consciously raising the proportion of free outlay.

It is not as if Karnataka had not provided for the involvement of the panchayats. The gram sabhas identified programmes, on the basis of which the mandal panchayats formulated plans for local works and the zilla parishads prepared district plans. But these were then processed by the state planning department, which finalised the district plans, taking care to ensure that adequate provision was made for committed expenditure, ongoing schemes, salaries, etc. Any chipping or chopping at the ultimate stage of the Planning Commission was naturally reflected in the district plans. The study does not clarify what was eventually left of the original district plans. Perhaps only 14 per cent.

The Karnataka observations find an echo in a recent study of West Bengal's panchayats.¹ In that state there is hardly any relationship between elaborately prepared district plans and actual budget allocations. The budget does not, in any case, show allocations district-wise. The study suggests that this defect should be remedied and, further, that the allocation for a district should devolve *en bloc* to the zilla parishad. Leaving aside centrally-sponsored schemes, which the states cannot touch, there should be minimum conditionalities to the devolutions so made. Zilla parishads should have power to reappropriate funds, except from schemes for the scheduled castes and tribes, women and children. Wholly untied devolutions should be steadily enhanced.

It would seem from the above that if only earmarked funds and sponsored schemes,

central or state, could be wound up and devolutions made wholly untied, decentralised planning might become a reality. Such a conclusion would be an over-statement. For one thing, while it is true that decentralised planning can hardly breathe under the present system of central planning, it is likely to drift anarchically in the total absence of a planning centre. A future one may reasonably visualise is the exit of allocative central planning, but the simultaneous entry of indicative planning enjoying wide enough support to furnish national, rather than central, guidelines and priorities. Decentralised planning would then be able to come alive and, at the same time, keep a sense of direction.

Secondly, while untied devolutions are a necessary pre-condition for decentralised planning, they are not sufficient. Devolutions must also be assured rather than discretionary, so that state and local governments can plan ahead with a degree of certitude. This will require closing the flow of funds from the Planning Commission to the states and from the state planning departments to local governments, and widening the constitutional channel of central and state finance commissions to embrace the totality of devolutions, cancelling the distinction between plan and non-plan. The vagaries of discretionary funding make for uncertainty and dependency, and also strengthen the forces of political and bureaucratic centralisation at both union and state levels.

A more important question is whether decentralised planning is worth anything if

all it means is deciding how to spend devolved money. The whole object of decentralisation is to generate robust independence of thinking at local levels. This can only come about if these levels raise their own resources sufficiently to feel autonomous. Aziz has brought out the interesting fact that, in Karnataka's mandal panchayats, own resources comprise more than half of total income. By contrast, West Bengal's panchayat samitis raise barely a 100th of the devolved money. If every panchayat were to follow the Karnataka pattern, local resources would be doubled and local planning could then be undertaken with self-confidence born of self-reliance.

Finally, with old style planning going out at the centre and new style self-government coming in at the local level, we need to give up talking of decentralised planning and instead focus attention on decentralised governance. When that is done, the foremost issue will be whether grass roots democracy will be able to change the power structure to give 'out' groups, primarily the poor and women, an effective voice in institutions of self-government. If and when it succeeds in doing so, there will be sunrise for decentralised governance, and with that for decentralised planning. Until then, we shall simply have to wait for the dawn.

Note

1 Nirmal Mukarji and D Bandyopadhyay, 'New Horizons for West Bengal's Panchayats: A Report for the Government of West Bengal', February 1993 (to be published).

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Schedule		As on 31.3.1993 Rupees	As on 31.3.1992 Rupees	Schedule		Year Ended 31.3.1993 Rupees	Year Ended 31.3.1992 Rupees
CAPITAL & LIABILITIES				1. INCOME			
Capital	1	2,000	2,000	Interest earned	13	3,018,196	2,833,808
Reserves & Surplus	2	1,762,139	952,914	Other income	14	642,088	1,340,573
Deposits	3	15,560,497	12,416,193	TOTAL		3,660,284	4,174,381
Borrowings	4	1,019,322	2,725,482	2. EXPENDITURE			
Other Liabilities and Provisions	5	1,042,776	2,309,602	Interest expended	15	1,769,629	2,383,571
TOTAL		19,386,734	18,406,191	Operating expenses	16	586,875	378,814
				Provisions and contingencies		9,183	51,060
				TOTAL		2,365,687	2,813,445
ASSETS				3. PROFIT BEFORE INCOME-TAX			
Cash and Balances with Reserve Bank of India	6	2,688,784	269,409			1,294,597	1,360,936
Balances with Banks and Money at Call and Short Notice	7	524,962	2,157,760	Provision for Taxation [net of short/(excess) tax provision for earlier years Rs. 2,473 1991-92: (Rs 36,198)]		563,810	725,802
Investments	8	10,356,912	8,668,379	4. NET PROFIT FOR THE YEAR			
Advances	9	3,565,628	4,235,243			730,787	635,134
Fixed Assets	10	426,634	204,427	5. APPROPRIATIONS			
Other Assets	11	1,823,814	2,870,972	Transfer to Statutory Reserves		146,157	127,027
TOTAL		19,386,734	18,406,191	Transfer to Revenue and Other Reserves		584,630	508,107
				TOTAL		730,787	635,134
Contingent Liabilities	12	34,795,357	59,951,767				
Bills for Collection		320,146	288,802				

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	As on 31.3.1993 Rupees	As on 31.3.1992 Rupees		As on 31.3.1993 Rupees	As on 31.3.1992 Rupees
SCHEDULE 1—CAPITAL			SCHEDULE 3—DEPOSITS		
1. Amount brought in as start-up capital	2,000	2,000	A I. Demand Deposits:		
2. Deposit with Reserve Bank of India under Section 11(2) of the Banking Regulation Act, 1949. Government Securities of the face value of Rs. 350,000 included in investments (previous year Rs. 210,000)	Nil	Nil	i) From Banks	8,402	10,443
TOTAL	<u>2,000</u>	<u>2,000</u>	ii) From Others	2,055,414	3,696,732
SCHEDULE 2—RESERVES AND SURPLUS			II. Savings Bank Deposits	431,386	358,176
1. Statutory Reserves			III. Term Deposits:		
Opening Balance	252,319	125,292	i) From Banks	25,336	Nil
Add—Transfer from Profit and Loss Account	146,158	127,027	ii) From Others	13,039,959	8,350,842
	<u>398,477</u>	<u>252,319</u>	TOTAL	<u>15,560,497</u>	<u>12,416,193</u>
2. Capital Reserves			B. i) Deposits from Branches in India	15,560,497	12,416,193
Opening Balance	64,377	47,958	ii) Deposits from Branches outside India	Nil	Nil
Add—Transfer from Revenue Reserves	425,963	16,419	TOTAL	<u>15,560,497</u>	<u>12,416,193</u>
—Revaluation Reserve	78,437	0			
	<u>568,777</u>	<u>64,377</u>	SCHEDULE 4—BORROWINGS		
3. Revenue and Other Reserves			A. Borrowings in India		
Opening Balance	636,218	300,838	i) Reserve Bank of India	Nil	Nil
Add—Transfer from Profit and Loss Account	584,630	508,107	ii) Other Banks	1,019,322	2,725,482
	<u>1,220,848</u>	<u>808,945</u>	iii) Other Institutions and Agencies	Nil	Nil
Less—Transfer to Capital Reserves	425,963	16,419	B. Borrowings outside India	Nil	Nil
Remittance of Profit to Head Office	0	156,308	TOTAL	<u>1,019,322</u>	<u>2,725,482</u>
	<u>425,963</u>	<u>172,727</u>	Secured borrowings in A and B above—Rs. Nil		
	<u>794,885</u>	<u>636,218</u>	SCHEDULE 5—OTHER LIABILITIES AND PROVISIONS		
TOTAL	<u>1,762,139</u>	<u>952,914</u>	1. Bills Payable	185,901	210,076
			2. Interest Accrued	246,438	259,855
			3. Others (including provisions)	610,437	1,839,671
			TOTAL	<u>1,042,776</u>	<u>2,309,602</u>
			SCHEDULE 6—CASH AND BALANCES WITH RESERVE BANK OF INDIA		
			1. Cash in hand (including foreign currency notes)	19,339	24,578
			2. Balances with Reserve Bank of India		
			a) In Current Accounts	2,669,445	244,831
			b) In Other Accounts	Nil	Nil
			TOTAL	<u>2,688,784</u>	<u>269,409</u>



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SCHEDULES FORMING PART OF BALANCE SHEET AS ON MARCH 31, 1993

	(000s omitted)			(000s omitted)	
	As on 31.3.1993 Rupees	As on 31.3.1992 Rupees		As on 31.3.1993 Rupees	As on 31.3.1992 Rupees
SCHEDULE 7—BALANCES WITH BANKS AND MONEY AT CALL AND SHORT NOTICE			B		
I. IN INDIA			1. Secured by tangible assets	2,594,447	3,338,787
i) Balances with Banks			2. Covered by Bank/ Government Guarantees	384,306	1,516,238
a) In Current Accounts	123,554	1,207,894	3. Unsecured	630,224	5,246,361
b) In Other Deposit Accounts	Nil	Nil		3,608,977	10,101,387
ii) Money at Call and Short Notice			4. Less Bills rediscounted	43,349	5,866,144
a) With Banks	400,000	949,866	TOTAL	3,565,628	4,235,243
b) With Other Institutions	Nil	Nil			
TOTAL	523,554	2,157,760	C I. Advances in India		
II. OUTSIDE INDIA			1. Priority Sector	32,659	657,349
i) In Current Accounts	1,408	Nil	2. Public Sector	1,544,223	3,973,180
ii) In Other Deposit Accounts	Nil	Nil	3. Banks	340,693	1,314,517
iii) Money at Call and Short Notice	Nil	Nil	4. Others	1,691,402	4,156,340
TOTAL I & II	1,408	Nil		3,608,977	10,101,387
	524,962	2,157,760	Less Bills rediscounted	43,349	5,866,144
SCHEDULE 8—INVESTMENTS			TOTAL	3,565,628	4,235,243
I. Investments in India					
1. Government Securities	4,380,517	3,043,835	C II. Advances outside India	Nil	Nil
2. Shares	600	600	TOTAL	3,565,628	4,235,243
3. Debentures and Bonds	4,729,627	4,105,091			
4. Others	1,246,169	1,518,853	SCHEDULE 10—FIXED ASSETS		
II. Investments outside India	Nil	Nil	1. Premises		
TOTAL	10,356,912	8,668,379	Cost as at April 1, 1991	5,278	5,278
SCHEDULE 9—ADVANCES			Additions during the year	Nil	Nil
A			Revaluation during the year	78,437	Nil
1. Bills purchased and discounted	859,191	7,469,520		83,715	5,278
2. Cash Credits, Overdrafts and Loans repayable on demand	2,362,242	1,482,249	Deductions during the year	Nil	Nil
3. Term Loans	387,544	1,149,617		83,715	5,278
	3,608,977	10,101,387	Accumulated depreciation to date	3,214	2,641
4. Less Bills rediscounted	43,349	5,866,144	TOTAL	80,501	2,637
TOTAL	3,565,628	4,235,243			



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SCHEDULES FORMING PART OF BALANCE SHEET AS ON MARCH 31, 1993

(000s omitted)			(000s omitted)		
	As on 31.3.1993 Rupees	As on 31.3.1992 Rupees		As on 31.3.1993 Rupees	As on 31.3.1992 Rupees
II. Other Fixed Assets			SCHEDULE 12—CONTINGENT LIABILITIES		
Cost as at April 1, 1991	301,181	183,308			
Additions during the year	195,837	127,956			
	497,018	311,264			
Deductions during the year	11,368	10,083			
	485,650	301,181	1. Liability on account of outstanding forward exchange contracts	32,647,144	53,578,192
Accumulated depreciation to date	172,746	127,697			
	312,904	173,484	2. Guarantees given on behalf of constituents		
Add—Assets under installation	33,229	28,307	(a) In India	1,356,963	2,754,921
TOTAL	346,133	201,791	(b) Outside India	Nil	Nil
TOTAL I & II	426,634	204,427			
SCHEDULE 11—OTHER ASSETS			3. Acceptances, endorsements and other obligations	492,133	3,618,654
1. Inter-Office adjustments (net)	573,996	1,257,076			
2. Interest accrued	157,557	292,866	4. Other items for which the Bank is contingently liable	299,117	Nil
3. Tax paid (net of liability)	135,561	70,613			
4. Stationery and stamps	6,220	16	TOTAL	34,795,357	59,951,767
5. Others	950,480	1,250,401			
TOTAL	1,823,814	2,870,972			

SCHEDULES FORMING PART OF THE PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED MARCH 31, 1993

(000s omitted)			(000s omitted)		
	Year Ended 31.3.1993 Rupees	Year Ended 31.3.1992 Rupees		Year Ended 31.3.1993 Rupees	Year Ended 31.3.1992 Rupees
SCHEDULE 13—INTEREST EARNED			3. Profit/(Loss) on revaluation of investments	193,093	(104,207)
1. Interest/discount on advances/bills	1,092,923	1,521,612	4. Profit/(Loss) on sale of land, buildings and other assets	1,374	243
2. Income on Investments	1,481,768	669,380	5. Profit on exchange transactions	39,506	373,613
3. Interest on balances with Reserve Bank of India and other inter-bank funds	429,987	629,798	6. Miscellaneous Income	1,635	845
4. Others	13,518	13,018	TOTAL	642,088	1,340,573
TOTAL	3,018,196	2,833,808	SCHEDULE 15—INTEREST EXPENDED		
SCHEDULE 14—OTHER INCOME			1. Interest on deposits	971,672	644,405
1. Commission, exchange and brokerage	113,558	181,896	2. Interest on Reserve Bank of India/inter-bank borrowings	788,028	1,736,006
2. Profit on sale of Investments	292,921	888,183	3. Others	9,929	3,160
			TOTAL	1,769,629	2,383,571



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SCHEDULES FORMING PART OF THE PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED MARCH 31, 1993

(000s omitted)			(000s omitted)		
	Year Ended 31.3.1993 Rupees	Year Ended 31.3.1992 Rupees		Year Ended 31.3.1993 Rupees	Year Ended 31.3.1992 Rupees
SCHEDULE 16—OPERATING EXPENSES			7. Auditors' fees and expenses (including branch auditors)	920	366
1. Payments to and provisions for employees	153,394	127,750	8. Law charges	2,793	1,504
2. Rent, taxes and lighting	106,702	71,005	9. Postages, telegrams, telephones, etc.	61,990	42,051
3. Printing and stationery	60,280	23,804	10. Repairs and maintenance	34,608	27,285
4. Advertisement and publicity	32,471	10,629	11. Insurance	1,023	380
5. Depreciation on bank's property	54,965	35,728	12. Other expenditure	77,665	38,201
6. Directors' fees, allowances and expenses	64	111	TOTAL	586,875	378,814

SCHEDULE OF NOTES

1. ACCOUNTING POLICIES

a) Accounting Conventions

The Financial Statements are drawn up in accordance with historical cost convention basis except in case of Commission on Guarantees & Letters of Credit and Payments under the Early Voluntary Retirement Scheme of 1988, which are accounted on cash basis. Fees earned on Portfolio Management Scheme are accounted on the maturity of these schemes in accordance with the directives of Reserve Bank of India (RBI).

b) Foreign Currencies

Assets and Liabilities in foreign currencies, except for Non Resident deposits in FCNR Accounts, are translated into Indian Rupees at rates current at Balance Sheet date as prescribed by FEDAI. The net exchange difference arising thereon is charged or credited to profit and loss account.

c) Investments

Investment Securities are valued at cost plus discount accreted till date. Trading Securities are valued at market values except for Negotiable Certificates of Deposit which are valued at cost plus discount accreted till date. Resultant gains or losses are taken to the profit and loss statement. The ratio of trading securities to total investments is well above the minimum norms prescribed by RBI.

Profit/Loss in respect of outstanding forward purchase and sale contracts in securities is accounted for on a monthly mark-to-market basis during the tenor of the contracts. This policy is in effect from April 1992. Had this change not been effected, profit for the year would have been higher by Rs. 291,848 (net of tax Rs. 116,739).

d) Fixed Assets

Immovable Properties are stated at market price, as valued by approved valuer, less accumulated depreciation. This policy is in effect from March 10, 1993. Had this change not been effected, Fixed Assets and Capital Reserves would have been lower by Rs. 78.11 million and Rs. 78.44 million respectively, and profit for the year higher by Rs. 0.33 million.

Other Fixed Assets are stated at cost less accumulated depreciation. Depreciation is charged on straightline method, at rates higher than those specified in the Schedule XIV of the Companies Act, 1956 as per the global policy of the Bank.

e) Advances

Provisions for doubtful advances have been made to the satisfaction of the auditors and in accordance with the norms prescribed by RBI, based on a periodic review of advances and after taking into account the portion of advance guaranteed by the Deposit Insurance and Credit Guarantee Corporation, the Export Credit and Guarantee Corporation and similar statutory bodies.

f) Staff Benefits

Provisions for gratuity/pension benefits to staff have been made on accrual basis except for liability mentioned in Note 2. Separate funds for gratuity/pension have been created.

2. The liability pertaining to employees who retired under the Bank's Early Voluntary Retirement Scheme of 1988 is being accounted for as and when it falls due under the scheme. The total liability under the scheme as on March 31, 1993 as actuarially determined is Rs. 8,198,000.

3. Investments include:

a) Bonds valued at Rs 19.44 million (face value Rs. 21.35 million) which were misplaced in transit in 1990 and 1991. Necessary action in terms of lodging FIRs with the Police and notifying the issuers of the bonds has been taken. The Bank continues to hold valid legal title to the bonds as their registered owner.



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- b) Bonds valued at Rs. 182.72 million (face value Rs. 220 million) currently registered in the name of a third party which has been notified under Section 3(1) of the Special Court (Trial of Offences Relating to Transactions in Securities) Act, 1992.
- c) Securities valued at Rs. 426.79 million (face value Rs. 477.50 million) in respect of which the Bank holds Bank Receipts of other Banks which are more than 90 days old. However, all such Bank Receipts have been revalidated by the issuing Banks indicating that these are current and authentic, against which securities are deliverable.
- 4. Claims aggregating to Rs. 561.45 million have been made on the Bank by another bank on account of securities that were allegedly not delivered. The Bank has disputed these claims and has been legally advised that they are not tenable.
- 5. The Bank has furnished explanations to RBI in response to the Special Audit Report on the Bank's securities operations, under Section 30(1B) of the Banking Regulation Act, 1949. Financial impact, if any, will be provided for upon completion of action by the RBI.
- 6. A demand of Rs. 184.86 million has been raised by the Income-tax authorities for Assessment Year 1990-91 against which the Bank has filed an appeal. No provision has been made in respect of the demand.
- 7. Previous year figures have been regrouped and reclassified wherever necessary.

**FOR BORKAR & MUZUMDAR
CHARTERED ACCOUNTANTS**

Sd/-
AMBI VENKATESWARAN
CHIEF EXECUTIVE OFFICER
June 29, 1993
NEW DELHI

Sd/-
DILIP M. MUZUMDAR
PARTNER

AUDITORS' REPORT

We have audited the attached Balance Sheet of the Indian branches of Bank of America National Trust and Savings Association as at 31st March, 1993 and also the Profit and Loss Account of the Indian branches of the Bank for the year ended on that date.

In accordance with the provisions of Section 29 of the Banking Regulation Act, 1949, read with the provisions of sub section (1), (2) and (5) of Section 211 and sub section (5) of Section 227 of the Companies Act, 1956, the Balance Sheet and Profit and Loss Account, together with notes thereon, are not required to be and are not drawn up in accordance with Schedule VI to the Companies Act, 1956. The accounts are, therefore, drawn up in conformity with Forms A and B (revised) of the Third Schedule to the Banking Regulation Act, 1949.

We report that:

- a) We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit, and have found them to be satisfactory.
- b) The transactions which have come to our notice have been in our opinion within the powers of the bank except for certain transactions as referred to in the Special Audit Report u/S 30 (1B) of the Banking Regulation Act, 1949.
- c) In our opinion, proper books of account as required by law have been kept by the Bank so far as appears from our examination of those books.
- d) The Balance Sheet and Profit and Loss Account of the Indian Branches of the Bank dealt with by this report are in agreement with the books of account.
- e) Reference is invited to the Schedule of Notes regarding loss on forward securities contracts (note 1c), revaluation of immovable properties (note 1d), investments (note 3), claims made by other banks on account of securities allegedly not delivered (note 4), and the financial implication arising out of Special Audit Report u/S 30 (1B) of the Banking Regulation Act, 1949 (note 5). Subject to the above, in our opinion, and to the best of our information and according to the explanations given to us, the said accounts read with other notes thereon give the information required by the Companies Act, 1956, in the manner so required for Banking Companies, and on such basis the said Balance Sheet gives a true and fair view of the state of affairs of the Indian Branches of the Bank as at 31st March, 1993 and the Profit and Loss Account gives a true and fair view of the Profit of the Indian Branches for the year ended on that date.

**For BORKAR & MUZUMDAR
CHARTERED ACCOUNTANTS**

Sd/-
DILIP M. MUZUMDAR
PARTNER

Date: June 29, 1993
BOMBAY

Liberalisation and Structural Adjustment in Latin America

In Search of an Alternative

Henry Veltmeyer

The turn in economic policy in Latin America away from state intervention and towards the free market and associated institutional and structural reforms raises a number of critical questions which are briefly explored in this paper. First, there is the issue of restoring growth under conditions of macro-economic equilibrium, the major stated objective of the structural adjustment programmes (SAPs) and the neo-liberal agenda. Second, there is the social dimension of SAPs, as even in the most successful cases of economic reform the social impact has been generally negative. The third dimension of SAPs identified and discussed here is the strategic (intellectual and political) response of groups and organisations in civil society. This issue is of critical importance in both theoretical and political terms, as it relates to the need to reformulate an alternative strategy to the SAP.

I

Introduction

THE 1980s in Latin America have been widely considered as "lost to development", under conditions of a debt crisis which led to a shortage of investment and loan capital, a haemorrhage of resources (an unprecedented net transfer of US \$ 200 billion out of the region), a massive flight of domestic capital, a drastic reduction of imports and consumption, stagnant production, cut-backs of state expenditures on social programmes and a general decline in living standards and services.¹ The 1990s, however, have ushered in winds of change. Accumulated debts have become manageable. To all intents and purposes the debt crisis appears to be over, and a number of economies are on the upswing, with "another boom in prospect, possibly even under way" (*The Economist*, April 18, 1993: 21). Led by Mexico, the star performer on a stage set by Chile's military regime of Augusto Pinochet, a "bold revolution is taking hold and spreading throughout the region". This revolution, as *The Economist* sees it, together with other apologists for the free market and untrammelled capitalism, is the result of "a commodity (formerly) in short supply: sensible economic reform" (ibid). Throughout Latin America "the old model of state control and over-protection is being dumped, and inflation confronted. Balanced budgets, production and trade liberalisation are everywhere the buzzwords" (ibid).

Behind this 'bold revolution' is the Structural Adjustment Programme (SAP) designed by the economists of the World Bank and the International Monetary Fund, and promoted, where not imposed by the International Financial Institutions (IFIs), as a requirement for debt renegotiation and access to international loan and investment

capital. Based on a neo-liberal model of market-led development, and what Williamson (1990) has termed 'the Washington Consensus'² SAPs in one form or another have been adopted or are currently being implemented by virtually every government in the region. Even Peru, which in defiance of the IMF³ and the ideology of the free market, had for years pursued a programme of traditional heterodox and populist policies (control of prices, exchange rates, and public utility rates; fiscal deficit reduction; monetary reform and expansion;...) has succumbed to the consensus view.⁴

Since 1983, government after government in the region has adopted what in the Bolivian context and elsewhere is termed 'the New Economic Policy' (NEP), programmed by and large by Washington-based agencies.⁵ The collapse of the socialist model and the disintegration of the Soviet bloc accelerated this process, leading to the installation of neo-orthodox SAPs and a new round of IMF agreements, debt rescheduling and an influx of foreign investments across the region—in Chile, in 1989-90, with the transition towards a civilian 'democratic' regime; in Mexico, with the assumption in 1988 of state power by Salinas de Gortari; in Peru, with the eclipse of Alan García's populist regime and the election of Fujimori; in Argentina, in 1986 but particularly in 1990, with the pronounced shift to the right by Menem [Kiguel and Liviatan 1991; Canavese 1991]; in Venezuela, in 1989, with the installation of a macro-economic adjustment programme that led to the events of 1992 and the regime's most severe political crisis to date [Hausman, 1990; Tulchin and Bland 1993]; in Ecuador, with the installation of the government formed in August 1992 by Sixto Durán Ballén and the implementation of austerity measures as

draconian as those of neighbouring Peru; and elsewhere, including Bolivia, an important test case of the neo-liberal model in its most orthodox form, as designed in this case by the Harvard economist Jeffrey Sachs [Sachs 1986; Morales 1987].⁶ In each case, the NEP, currently adopted with variations by every country in the region, has been oriented or directed towards managing debt service, controlling inflation and balancing the country's current account on the basis of market oriented reforms designed to promote exports and private sector development of the economy.

This turn in economic policy away from state intervention and towards the free market and associated institutional and structural reforms raises a number of critical questions that will be briefly explored in this paper. First, there is the issue of restoring growth under conditions of macro-economic equilibrium, the major stated objective of SAPs and the neo-liberal agenda. On this point, as we will see, the results are mixed, with some economies—notably those of Chile and Mexico—having restored growth of output and exports under conditions of surprising macro-economic equilibrium (low inflation, balanced accounts), generating widespread reference to "an economic miracle". Secondly, there is the social dimension of SAPs. The issue here is more problematic, as it would appear that even in the most successful cases of economic reform (Chile, Mexico) the social impact has been generally negative—increased social inequalities, widening and deepening of poverty, and an inability to incorporate the broad sectors of the population that have had to bear the brunt of the transitional costs of the adjustment process. To anticipate our discussion, it is now clear enough (to the multilateral financial institutions and the governments involved, as well as to those

less supportive of or opposed to economic liberalisation) that the medium-or long-term benefits of economic reform do not automatically trickle downwards or spread; and that the most vulnerable groups, particularly those in dire poverty, need to be protected and compensated with targeted policy measures.

The third dimension of SAPs which we will identify and briefly explore in the Latin American context is the strategic (intellectual and political) response of groups and organisations in civil society, especially in the popular sector. For some reason, research and analysis has focused on the economic and social impacts of SAPs, with scant attention being given to this issue. We suggest that this issue is of critical importance in both theoretical and political terms, as it relates to the need to reformulate an alternative strategy to the SAP. It places on the agenda once again the structural transformation of the economy and society, as well as the possibility of overcoming the intellectual and political impasse—and defeatism—of the Left.

II

Neo-liberal Agenda in Context

The major and oft-stated aim of SAPs, the key element of the IFI's neo-liberal agenda for Latin America, has been to restore growth-with-balance in the region's economies.⁶ Despite acknowledgement of the severe 'external shocks' (viz, the scissor-squeeze of rising interest rates and plummeting prices for exports) experienced by countries in the region in the late 1970s and early 1980s the IFI's diagnosis of the region's economic problems (lack of growth, external and internal imbalances) was that they were the result of a development strategy adopted everywhere in the post-world war period, namely, *import-substitution industrialisation*, an inward-oriented strategy for economic growth led and promoted by an interventionist state. As Ballasi and other neo-classical economists studying the region saw and see it, the prospects for growth in Latin America entailed the adoption of the outward-oriented strategy of export promotion which has worked so well in south-east Asia.⁷ On this basis, a consensus was formed as to the critical objectives to be achieved and the policy measures and structural reforms that would be needed in a programme of stabilisation and structural adjustment.⁸

Although the neo-liberal agenda for Latin America was formed in the context of the 1982 debt crisis, the orthodox programme of structural adjustment was pioneered in Chile by the military regime installed in 1973 with a right-wing political project to arrest and reverse the development process

under way, and to demobilise the social and political forces which, with Salvador Allende, had captured the presidency and threatened the status quo of the propertied and political classes. The economic reforms designed by a team of technocrats, the 'Chicago Boys', and implemented by the regime between 1975 and 1981 were so deep and far-reaching that Ronald McKinnon, a World Bank economist and one of the architects of the Washington Consensus on appropriate policy, observed in a Central Bank memo [Santiago 1977] that "the Chilean government has made more sweeping rationalisations... than has occurred in any economy in modern history". The major reforms instituted by 1981 are summarised in the appendix.

The 'benefits' of these reforms, in the eyes of the regime's apologists, materialised, on the one hand, in the management of inflation, which had soared to 508 per cent in the last year of Allende's regime and, on the other hand, in the recovery of growth in total output and exports. From 1976 to 1981 total output grew at an annual average of 7.1 per cent, while exports grew by 7.4 per cent. Table 1 summarises some aggregate data on these macro-economic indicators, which gave rise to much talk of an 'economic miracle' and dreams of Chile becoming another Taiwan or South Korea, dreams that ignored the reality represented by these growth rates (recovery from a crisis in which the production shrank by 14.4 per cent).

Table 1 also provides relevant data on the evolution of wages, relating to the major element of the neo-liberal formula for restoring growth and profitability: *cheap labour*. As in the Asian NICs, and under similar conditions of authoritarian rule, it was the working classes, which, through a variety of means, were forced to absorb the major costs of the structural reforms implemented by the regime. This connection between economic growth and cheap labour is also reflected in the dramatic decline of labour's share in national income—from 62.8 per cent in 1973 to 41.1 per cent in 1977⁹—and in the equally dramatic concen-

tration of capital in the privileged agro-export sector of the economy.¹⁰

By mid-1982, this and other early experiments by military regimes in the Southern Cone with a neo-liberal programme of structural adjustment came to a crashing halt in a world-wide crisis that devastated the region's economies, particularly that of Chile. Exposed and 'open' to the world economy like no other, the Chilean economy experienced in 1982-83 a fall of 16.7 per cent in production, an official unemployment rate of 26 per cent, and the near-collapse of the country's major banks, saved only by massive intervention and bail-out by the state. By the end of 1983, under the direction of a second-generation of Chicago Boys, the Chilean economy began to recover, but in a different context—a different world. Within the region, conditions of a hard-hitting and far-reaching debt crisis were creating havoc with government finances and development plans. And beyond the region, western industrial 'democracies' were seeking to resolve a generalised crisis in overproduction and in the dominant form of production (fordism), and to establish a new form that would increase productivity and restore profitability (and economic growth)—a New World Order.

The resulting restructuring had a number of dimensions, but as far as Latin America (and other areas of the third world) was concerned, it involved a counter-revolution in development thinking and practice, a neo-liberal 'free market' doctrine institutionalised with near-tyrannical support, of the Washington-based agencies and the Inter-American Development Bank, the institution most directly responsible for overseeing the implementation of SAPs in the hemisphere. In this context, Latin American regimes sought to reschedule their external debts, control inflation, and to balance their accounts and budgets. One government after another, with or without an IMF agreement, introduced free market policies and appropriate reforms: privatisation of public enterprises; liberalisation of trade; and deregulation of capital markets, eliminating price distortions and letting market

TABLE 1: CHILE, 1974-84—MACRO-ECONOMIC INDICAT

	1974	1975	1976	1977	1978	1979	1980	1981	1982
GDP per capita,									
per cent growth	2.2	-14.4	1.8	8.0	6.4	6.5	6.2	4.1	-14.5
Balance current									
account	-256		159		-965		-1382	-3347	-1696
Ext. debt, per cent									
ann change	16.0		-2.8		28.1		30.7	40.2	10.4
Debt service	15.1		39.4		41.6		39.6	64.2	64.4
Index of real wages									
(1970=100)	65.0		64.9		76.0		89.3	97.3	97.2
Unemployment									
per cent	9.2		19.8		17.9		17.3	15.6	26.1
Inflation per cent	376		174		30		31	10	21

Sources: French-Davis (1983: 912-918); Banco Central de Chile (1989).

prices and private sector agencies direct the development process.

As noted, these free market reforms and policies have had mixed results, but once again Chile paved and led the way, signalling both the achievements and the limitations, the benefits and the costs, of the neo-liberal model. A brief assessment of this model will allow us to address several critical questions about the process of economic liberalisation in Latin America.

III

Neo-liberalism in Practice: Chilean Model

Under the direction of a new generation of Chicago Boys, and with a Stand-By IMF agreement, an orthodox but more flexible stabilisation-and-structural adjustment programme was adopted in 1983. On the basis of the liberalising reforms and the agro-export model introduced in the 1970s, Pinochet's new economic team introduced a standard package of stabilising policy measures, with the desired and anticipated effect of controlling inflation.¹¹ As for structural adjustment, the government's programme for restoring growth centred on the most crucial element of the neo-liberal model: the capital-labour relation.

The capacity of workers to organise in defence of their wages and other working conditions had been weakened or destroyed by earlier actions and policy measures of the Pinochet regime. But to maintain and ensure the cheap labour on which the neo-liberal agro-export model was built, unemployment, which had risen to over 30 per cent, was purposefully kept at an unprecedented level (over 24 per cent, two or three times the historic rate) for four years.¹² And the exchange rate was adjusted periodically to facilitate the continued transfer of resources from labour to capital.

These measures, the major mechanisms of internal adjustment in the Chilean model, were so effective that by 1990 the neo-liberal programme of recovery and growth of output, sustained as of 1984 at an average annual increase in the GDP of over 5 per cent, had generated a huge pool of working capital, highly concentrated and centralised in the agro-export sector of the economy. The foundation for this concentration was already in place by 1981, at which point the 507 state enterprises existing in 1973 had been reduced to 27, and a small cluster of Big Economic Groups had captured 68 per cent of the assets of all corporations operating on the stock market and managed to control 42 per cent of all bank capital.¹³ By 1986, agro-exports, the most dynamic and highly privileged sector of the Chilean economy, was monopolised by a handful of

tional associates. The seven largest firms (four belonging to the Angelini family and associates) accounted for 64 per cent of all fish landings, 68 per cent of the export of fish meal, and 32 per cent of wage labour in the industry.¹⁴ In the same year, six firms controlled 52 per cent of fresh fruit exports; and for firms accounted for 65 per cent of forest products exports. And in subsequent years the process of privatisation and the concentration of capital, if anything, has accelerated.

At the same time, this process of concentration assured for labour a lower share of new wealth and income than labour had in any other major Latin American country, with the possible exception of Mexico.¹⁵ The statistics on this point are revealing. In 1969, on the eve of Salvador Allende's socialist regime, wages represented 52.3 per cent of the GDP, rising to 62.8 per cent by 1972.¹⁶ By 1989, after 17 years of military rule and neo-liberal policies, the share of wages in national income had fallen (or been pushed down, to be more exact) to 30.7 per cent. The statistics on value added in manufacturing are even more revealing. The share of labour in added value is a critical measure of the degree of exploitation by capital of labour. On this measure, as shown in Table 2, the Chilean working class is among the most exploited in Latin America. The share of labour in income derived from value added in manufacturing is the lowest of any major Latin American country for which data are available.

The combination of stabilisation and structural adjustment measures, implemented under the Pinochet regime and for the most part continued under the Concertación Democratic Coalition government installed in March 1990, appeared to be successful in restoring both growth and macro-economic equilibrium. With overall production in-

creasing at an annual rate averaging 6 per cent (4.6 per cent on a per capital basis) and exports growing at close to 10 per cent a year, under conditions of macro-economic equilibrium (Table 4) rare in the region, the performance of the economy at this level was such that Augusto Pinochet and the social and political forces ranged in support of his regime could and did calculate that they could safely risk a plebiscite on the regime's continuation (for another proposed eight years). As it turns out they seriously miscalculated and were voted out of office. However, they left the incoming civilian regime a legacy of 'growth with macro-economic equilibrium' and a disposition to continue the economic policies of the military regime—to maintain in essence the neo-liberal agro-export model and its structural and policy requirements.¹⁷

Growth with macro-economic equilibrium, however, was not the only legacy left the new regime. In the first place, the high levels of apparent growth in output and exports should be put into perspective. By controlling for and taking into account the loss of productive capacity and output in the crises of 1975 (14.4 per cent) and 1982-83 (16.7 per cent) the rate of growth achieved by Chile is far from miraculous. Indeed, as Tables 3 and 4 show, the record of overall growth for the entire period of military rule (1973-89) in Chile, from a regional perspective, was if anything disappointing. It took Chile's economy four years to recover from the crisis of 1975 and six years to recover the level of output achieved in 1981. Over the entire period of the Pinochet regime's neo-liberal experiment Chile averaged an annual growth in GDP of 1.8 per cent (0.2 per cent per capita). Only five countries in the region had a worse record of growth, and this includes Mexico, the other regional showcase of neo-liberal policies. And it is not that

TABLE 2: EMPLOYEE EARNINGS AS A PERCENTAGE OF VALUE ADDED IN MANUFACTURING, 1973-85

	Argentina	Bolivia	Brazil	Chile	Colombia	Mexico	Peru	Venezuela
1973-81	25.9	38.8	20.4	16.7	20.3	37.1	16.9	29.0
1982-85	19.4	34.6	19.7	17.7	20.4	26.2	19.7	28.8

Source: World Bank, World Tables 1988-89, pp 104-05, 148-49, 188-89, 196-97, 228-29, 404-05, 464-65, 604-05, 612-13.

TABLE 3: GROWTH OF GDP AND EXPORTS

	Annual Average (Per Cent)						Cumulative
	1961-70		1971-80		1981-90		Per Cent Change 1981-90
Argentina	4.3	(6.1)	2.6	(2.1)	-1.2	(5.4)	-23.5
Bolivia	5.6	(9.1)	3.9	(-1.7)	-0.1	(0.7)	-26.6
Brazil	6.1	(8.9)	8.6	(8.2)	1.6	(5.9)	-0.4
Chile	4.2	(3.5)	2.5	(7.4)	2.9	(6.4)	9.6
Colombia	5.2	(4.3)	5.4	(3.7)	3.7	(7.2)	13.9
Mexico	7.0	(3.0)	6.5	(10.2)	1.6	(9.5)	-9.2
Peru	5.0	(1.5)	3.9	(2.3)	-1.1	(-1.1)	-24.7
Venezuela	6.0	(2.6)	1.8	(-5.1)	0.3	(2.2)	-24.9
Cuba							33.5
Latin America	5.7	(3.9)	5.6	(2.6)	1.3	(5.4)	-8.3

Source: CEPAL and World Bank, cited in Meller (1992:1); CEPAL (1990).

the other economies in the region have done so well. Under policy regimes of structural adjustment. In fact, measured against the key objective of SAPs, to restore and sustain growth under conditions of macro-economic equilibrium, the performance of most of the region's economies in the 1980s, the decade of debt crisis and structural adjustment, has been dismal, and certainly not as strong as in the previous two decades during which the region's governments had not yet discovered 'sensible economic reform'.

Another legacy which the Pinochet regime has left the Social Democratic regime of Patricio Aylwin is what could be viewed as the underside of Chile's so-called 'economic miracle': a widening and deepening of various social inequalities in the distribution of income and other economic resources; a dramatic decline in the purchasing power of wages and an associated deterioration in living standards; and the creation of conditions that placed and still keep five million people (out of fewer than 13 million) in poverty.

Statistics on income distribution provide a general indication of the worsening of economic conditions for the majority of Chileans over two decades of military rule and neo-liberal policies. In 1979, the richest 10 per cent of households took 36.5 per cent of national income.¹⁸ Ten years later, their share climbed to 46.8 per cent, while the richest 20 per cent of all households increased their share of national income from 43 per cent to 58 per cent. At the other extreme, the share of the poorest 40 per cent of all households fell from 19 per cent to a little over 13 per cent. And statistics on the distribution of consumption, which is a better indicator of average social welfare and the level of disposable income, show a similar pattern. In 1970, the top quintile of households accounted for an estimated 44.5 per cent of all personal consumption. By 1989 they accounted for 54.6 per cent, an increase of 20 per cent.¹⁹ Meanwhile, a growing number of households significantly reduced their share of personal consumption in a context where over the decade average consumption per capita was being reduced (by an estimated 17 per cent), wages lost at least 20 per cent of their real value in 1981, and social expenditures were cut back.²⁰ In this context, many households were increasingly unable to meet even their basic needs. The statistics on this subject are startling. In 1969, at the onset of Allende's socialist regime and four years before Pinochet's military coup, 28.5 per cent of all Chileans were estimated to be living in poverty, unable to meet their basic needs.²¹ By 1979, after six years of military rule and well into a touted 'economic miracle', 36 per cent of Chileans lived in poverty. Ten years later, and in the throes of another

'economic miracle', the neo-liberal policies of the Pinochet regime bore fruit in a growing impoverishment of the population. In 1990 an estimated 42 per cent of all households lived below a conservatively defined poverty line, and 15 per cent of all households were destitute (versus 8.4 per cent in 1969).²²

The regressive distribution of income, the growth of poverty, and the declining share of wages in national income generally reflect the process of concentration of wealth among the top income recipients and the decline in the level of remuneration of labour over the years of the Pinochet regime. In the first five years of Pinochet's regime (and its assault against labour's organisational capacity and power) wages lost close to 50 per cent of their purchasing power (Table 5). After a slow and partial recovery, wages were depressed once more, losing between 1983 and 1987 at least 20 per cent of their estimated 1981 value.²³ Even today, after three years of an elected civilian regime dedicated to 'growth-with-equity' (and macro-economic equilibrium), labour has not recovered the purchasing power that wages had in 1970. As for minimum wages paid to most workers in commerce, construction and service industries, they lost up to 56.7 per cent of their real value in the course of five years of economic recovery and growth (1983-87).²⁴

It is clear that the once powerful Chilean working class bore the brunt and absorbed the major costs of structural adjustments engineered by the Pinochet regime in its neo-liberal experiment. Despite the reformist orientation of the current Christian Democratic regime it is clearly committed to maintaining both the prior regime's neo-liberal approach to economic policy and the underlying structure of capital-labour relations consciously and forcibly created by it. Under these conditions, and in the face of a convergence within the current regime between neo-structural and neo-liberal versions of structural adjustment policies, labour has not recovered its former strength and organisational capacity.²⁵

IV

Poverty in Wealth: Social Cost of Adjustment

By the end of the 1980s a number of economies in the region were managing to service their external debts, control inflation, and sustain economic growth, although even in Chile and Mexico most of this growth was but a recovery of pre-crisis levels of production. As for the growth that was achieved, its fruits were very unevenly distributed, and much of the population has been left behind entirely. In most countries the purchasing power of wages, consumption levels and standards of living of the working classes has deteriorated and has not yet recovered levels reached in 1980 or even the early 1970s. This is most clearly reflected in the evolution of minimum wages, paid to most workers in the burgeoning sectors of retail sales, commerce and personal service, and directly affecting an estimated 25 to 40 per cent of the economically active population in many countries. In the cases of both Chile and Mexico it is estimated that by 1990 the minimum wage had lost around 65 per cent of its estimated 1980 value. As in the case of Mexico, it currently requires the equivalent of three minimum wages to keep a household out of extreme poverty, and the 1990 census placed up to 60 per cent of the population below this standard, there is no doubt that the social costs of economic liberalisation both in this and other cases have been high.

The opening of national economies to the world market, deregulation of prices and economic activity, the divestment of state enterprises and a reduction of social expenditures, a generalised depression of minimum and average wages, and other structural adjustment policies, appears to have worsened for most people in the region their conditions of existence. For a large part of the population in most countries the tangible result of economic liberalisation has been unemployment, inadequate incomes and relative poverty—relative to both their earlier situation and to the vast wealth and

TABLE 4: GDP GROWTH PER CAPITA 1982-93

(Per Cent)

	1982	1983	1984	1985	1986	1987	1988	1989	1990
Chile	-14.5	-2.2	4.3	0.7	3.6	3.7	5.3	6.7	1.7
Latin America	-3.5	-5.0	1.2	1.3	1.4	0.7	-1.5	1.0	

Source: CIEPAL (1990: 22).

TABLE 5: EVOLUTION OF WAGES (REAL REMUNERATION INDEX)

1970	100.0	1980	89.3	1984	87.1	1988	90.3
1972	126.6	1981	97.3	1985	83.2	1989	92.0
1978	76.0	1982	97.6	1986	84.9	1990	93.7
1979	82.2	1983	86.9	1987	84.7	1991	96.9

Source: CIEPLAN, table 11.13; Programa de Economía y Trabajo, Informe Anual 1991-92, table 13 a August 1992.

incomes of those groups and classes privileged by the neo-liberal model. While the magazine *Forbes* in its annual survey could observe in the region a notable increase in the number of billionaires (from eight in 1991 to 20 a year later) in the context of liberalisation policies, privatisation, etc, the same policies had increased the number of people unable to meet even their basic needs. Table 6 provides a glimpse of the magnitude and various dimensions of the problem.

Among other things, Table 6 shows that the incidence of poverty in the region doubled over the decade, and that after 1989 it accelerated, with the implementation in many countries of reforms such as the elimination of subsidies, the freeing of prices for agricultural products, social spending cuts, control of public sector wages, the dropping of wage indexation and minimum wage legislation, and the privatisation of state enterprises, with the consequent loss of thousands of jobs.

So striking and generally apparent has been this negative social impact of SAPs that the IMF, the World Bank, and other sponsors and advocates of SAPs, have been compelled to recognise that the social costs of SAPs, borne by and large by the working and non-working poor, are not merely short-term or transitional; and that definite policies are required to ensure a wider more equitable distribution of the gains and to protect the most vulnerable groups, particularly those in extreme poverty.²⁶

The architects and sponsors of SAPs had assumed an increase in social inequalities (if not poverty). Indeed they see them as both inevitable and necessary, costs to be absorbed, bitter pills to be swallowed for the sake of improved efficiency and progress (via private sector allocation of resources) and macro-economic stability. But by the early 1990s it became clear that the anticipated pain was not just a short-term problem and that the social—and political—consequences of prolonged hardships and pain could not be supported or effectively managed, the democratic process itself being placed in jeopardy. The Inter-American Development Bank, among other institutions, is very clear about the problem: "A further deterioration of the already high uneven income distribution in most of the countries in the region could effectively block recovery by creating political and social unrest, reducing private inflows..."²⁷ In this context, and with reference to the social unrest and political protests experienced by so many countries in the region, it has become increasingly clear to the governments involved and the IFIs that specific policies are required to ameliorate the social and economic conditions of poverty, to compensate the poor for the workings of the 'free' market.

The IMF has also come to this 'new understanding' even though it attributes poverty not to structural causes or to IMF policies, but to 'behavioural' problems (see *Finance and Development*, 29, 4, December 1992). This 'new understanding', which also reflects the findings of several regional conferences on poverty (Caracas, 1988, Quito, 1990, Santiago, 1992) as well as the now ubiquitous search for a strategy of structural adjustment with a human face or, in the CEPAL formulation, 'productive transformation with equity', has been institutionalised in recent lending policies of the IFIs and in the new social policies adopted by many governments in the region. Augusto Pinochet in the early 1980s had already instituted a social assistance programme aimed at the amelioration of conditions for the poorest of the poor, with mixed results. The failure of this programme (in which Pinochet appeared to take a particular interest) created a major challenge for the *Democratic Coalition* regime installed (in March 1990) with the electoral promise and raised expectations that the problems of the working and non-working poor identified by the regime's own economists would be addressed.

The immediate response of the government was to establish and seek financing for a Solidarity and Social Investment Fund (FOSIS)—via reform of the tax system—without jeopardising macro-economic equilibrium to which the highest priority was attached.²⁸ Similarly in both Mexico and Bolivia, the two other 'success-cases' of orthodox SAPs, the poor have been 'targeted' in the design and institution of a new social programme and in an effort to 'incorporate the social dimension' in national policy. Emanating from the office of the president, bypassing the traditional bureaucracy and its primary beneficiaries (the middle classes and organised workers), this new social policy (NSP) represents and typifies the response of Latin American govern-

ments to the legacy of negative social impacts of SAPs, to which they remain committed, ideologically in some cases, pragmatically in others.

An Agenda for 1990s

The institution of social policies targeting the poor, who are without doubt the major victims of SAPs, is not likely to resolve the political problems facing governments in the region. For one thing, emanating as they tend to do directly from the president's office—for political or electoral reasons—bypassing the traditional bureaucracy in the social sector, these social programmes do not address the concerns of the middle classes and organised labour, the prime beneficiaries of these traditional institutions and by no means active participants in the process or benefits of the adjustment process.

Much more study into this issue is needed, but it is clear enough that SAPs have both created a new middle class of entrepreneurs and benefited them substantially in addition to certain elements of the dominant and ruling classes. However, other elements of the middle class, and organised labour in general, have absorbed major costs of the adjustment process without sharing in the benefits. This is most clearly reflected in an active process of proletarianisation and growing immiseration of middle classes throughout the region, a development that has surfaced in the phenomenon of the 'new poor' (as opposed to those 'born poor'). On this point, it is estimated (by Luis Beccaria, until recently head of the National Statistics Institute)²⁹ that in the case of Argentina, up to 60 per cent of the hitherto most powerful middle class in the region, have had their incomes shrink to levels associated with those of the working classes or have fallen into the 'new poor'. Even the remaining 35 per cent in the current context are 'middle class' more "as a state of mind... than a matter of income."

TABLE 6: GROWTH OF POVERTY IN LATIN AMERICA

	1980	1986	1990 ¹	1992 ²	2000 ³
Millions of people					
Poor	136	170	183	266	296
of which, Indigent	64	81			
As a per cent of population					
Poor	41	43	44	62	55
Indigent	19	21	21		
As a per cent of urban population					
Poor	30	36	36		
Indigent	11	14	14		
As a per cent of rural population					
Poor	60	60	61		
Indigent	33	36	37		

Notes: (1) Projection made by Eclac on the basis of figures for mid-1980s.

(2) Based on estimate made during the 2nd regional conference on poverty (Quito, 1990)

(3) Projection made in studies for the 3rd regional conference on poverty (Santiago, 1992).

Sources: Eclac, UNDP, cited in Latin American Special Reports (SR-92-5), October 1992.

Indications are that in other countries in the region similar processes are at work in relation to both the middle and working classes. What is not so clear, however—requiring further study—are the responses of groups and organisations in this sector and the nature of and form taken by the resulting (or possible) class alliances and political alignments. It is clear enough that classes and groups in this sector could constitute an important social base for political opposition to SAPs, the problem consisting in how to mobilise this opposition. In the 1980s, the opposition and mobilisations against SAPs by groups and classes in this sector were squelched through policies of repression and co-optation, resulting in a series of *concertaciones*, tripartite social pacts among labour, capital and government.

As for the masses of working and non-working poor in the region, now estimated at over 60 per cent of the population, targeted government programmes do not guarantee political or electoral support for economic policies of structural adjustment. There are indications that in Chile, Mexico and Bolivia, *inter alia*, the political base of opposition to SAPs is located in popular sector organisations (unions, NGOs, church-based groups, women and neighbourhood groups, and other Popular Economic Organisations) that articulate the experiences and interests of the working and non-working poor—and of the working classes in general—in a more effective way than traditional political parties. However the response of these popular sector organisations, and of the working classes more generally, to SAPs—surprisingly the object of very little systematic study and mobilising activity—requires a closer look. This response is critical to the search for and the formulation of an alternative strategy to the SAP and the neo-liberal model on which it is based.

At one level, the response of popular sector to SAPs is clear enough. There is no dearth of evidence of opposition and resistance. In case after case, implementation of austerity and structural adjustment measures in the region have brought about an immediate or eventual response in the form of social unrest, political protest, and the organised strike activity. Recent events in Ecuador provide a case in point. Similar events in Brazil, Mexico, Bolivia and elsewhere provide other cases, placing on the political agenda the same problem.

Despite his image as a moderate, able to inspire consensus, the Ecuadorian government of Sixto Durán Ballén, formed in August 1992, embraced at the outset the right-wing neo-liberalism of so many fellow-presidents, his colleagues-in-power, and showed the same tendencies that defined the radically conservative government of the former president Febres Cordero (1984-88). On September 3, a few days after his instal-

lation, he announced one of the harshest SAPs in the region, reminiscent of the draconian policies that virtually crippled Peru's economy a few years earlier and almost brought down the government of Pérez in Venezuela. Measures included a 35 per cent currency devaluation; increases of up to 90 per cent in electricity rates, 300 per cent for household gas and 125 per cent of gasoline.³⁰ The government also announced a drastic programme to reduce the size of the state sector, including the privatisation of services and industries.

Both the measures adopted by the Ballén government and the popular responses to them provide variations of a theme played out in other countries in the region. In this case, the government was composed almost entirely of people with business associations, many of them renowned for their negative attitudes towards organised labour and workers' rights. In this not atypical context, the business class ostentatiously flaunted their return to power, adding to the concerns of labour and popular sector organisations, and fuelling the fear that those in power would go ahead with their plans for economic liberalisation like a bulldozer, dispensing with the niceties of the tripartite social pacts sought by other governments in the region, and overriding social protests with military control. Despite the precautionary measures such as the stationing of troops at gas stations and in front of commercial establishments, opposition to the austerity measures surfaced or rather exploded, immediately, apparently much sooner than the government expected. By September 23, the government faced its first of various general strikes, called by the Unified Workers Front which, as in other countries in the region, grouped together the main labour unions. Union leaders announced that the strikes would continue unless and until the government modified or abandoned its policy and increased the social compensation package offered with the SAP. In the specific context of this particular struggle, the government sought to placate the protests by offering to reduce the announced increase in the price of household gas to 240 per cent and to raise the subsidy on low-cost electricity for the poorer areas. To some extent, these moves managed to defuse the level of social protest. However, in the context of the exuberant display of power by government members and representatives of capital, and the transparency of their economic interests, the prospect for dialogue is remote, as is the possibility for a social pact (between capital and labour) which appears to be the major mechanism used by governments in the region to contain opposition to SAPs.

At issue here in this experience are the social and political bases of support and opposition to the process of economic liberalisation unfolding in the region. With

numerous variations, a remarkably similar and consistent story is emerging throughout the region. However, the story cannot be retold until the social and political dynamics of the process are laid bare and analysed. This remains to be done.

Notes

- 1 Studies of these conditions of debt crisis and 'lost development' are legion. Under the harsh conditions of debt servicing, lack of investment capital, high interest rates and falling prices for export commodities, GDP in the region over the decade grew by 1.3 per cent a year but on a per capita basis this represented a 9 per cent fall in average income from 1980 to 1990 [Meller 1992:1]. Also, these statistics do not reflect well the real decline in living and working conditions over the decade. In Chile, for example, per capita income in 1990 was 112.3 per cent of 1980, as opposed to 91.6 per cent in 1970, suggesting considerable improvement over the two decades of military rule. However, the real remuneration index (Table 6) which more clearly reflects the change in average living conditions, paints a different picture. In 1980 it stood at 89.3 per cent of that in 1970, and in 1990 it stood at 9.37 per cent. Needless to say, the highly skewed distribution of income and other resources means an absolute decline in living standards for a large part of the population.
- 2 The so-called Washington-Consensus [Williamson 1990] entails (1) state reforms, including (a) fiscal discipline and (b) privatisation of state enterprises; (2) liberalisation and deregulation of the domestic capital market, trade and the operations of foreign investment; and (3) high and stable real exchange rates (to increase international competitiveness for export promotion).
- 3 See Glewwe and Hall (1992) for a review of Peru's efforts to pursue a traditional non-orthodox (in IMF terms) strategy in the course of Alan García's tenure as president. The failure to bring about any development and the collapse of the economy after eight years of Aprista rule is attributed by the authors to a failure to adopt the IMF prescribed policy medicine. Chossudovsky (1991) provides a quite different and more critical assessment of the orthodox strategy adopted by Fujimori.
- 4 See Levitt (1990, 1992) on this.
- 5 On Latin America's considerable experience with neo-liberal programmes of structural adjustment see, *inter alia*, Meller (1992), Canack (1989), Stallings and Kaufman (1990) and Handlman and Baci (1989).
- 6 There are numerous formulations of the neo-liberal agenda, but in the Latin American context it is spelled out most clearly by the Inter-American Development Bank (IDB), the institution most directly responsible for its implementation in the region. The Bank's four 'strategic directions' for Latin American reform contains the crux of this agenda.

7 Balassi et al (1986) provide a useful centre of reference for this neo-classical attack against the state-led strategy of ISI and an argument for EPI based on the experience of the south-east Asian NICs. The interpretation of Balassi *et al* also represents quintessentially the Washington Consensus interpretation of the Latin American experience.

8 The areas of consensus and the prescribed policy responses and instruments are summarised by Williamson (1990).

9 Odeplan, Cuentas Nacionales, cited in Bitar (1980:44).

10 On the conditions of this concentration see Dahse (1979).

11 On the economic reforms and policies of the second phase of the Pinochet economic regime see in particular Meller (1990). These reforms, as in Bolivia and Mexico, were successful in controlling inflation and establishing a measure of external balance. For an evaluation of various stabilisation programmes in the region see Cardoso and Helwege (1992) and Meller (1992).

12 On the conscious use of high unemployment as a mechanism for downward pressure on wages, leading to a cut of 20 per cent in average wages, see Sanfuentes (1987: 123).

13 Dahse (1979: 140-147, 159).

14 Weinstein (1988: 92-93); Echenique (1987: 20-21).

15 In Mexico, the share of labour in national income was reduced from 43 to 35 per cent between 1980 and 1989. By 1987, wages had lost 44 per cent of their 1981 value (Kaufman, 1989: 117). Whereas the ratio of US to Mexican average wage rates in 1975 was 4:1, by 1985 it was 16:1 (Botz, 1992:19).

16 Odeplan, Cuentas Nacionales, cited by Bitar (1980: 44).

17 On this point see in particular Leiva (1994). Alejandro Foxley, Minister of Finance in the current regime, makes clear in the context of the 'Alliance for Democracy' campaign, that a coalition government would seek to 'preserve the positive elements of the structural reforms instituted by the Pinochet regime' (Foxley et al cited in CIEPLAN 30 (1990: 64). The economic programme drawn up by the coalition team and subsequently implemented contained four key elements: (1) to construct a stable legal-institutional framework for the development of economic activities (as it happens the current regime continues to operate with the 1980 constitution commissioned by Pinochet); (2) maintenance of an open market economy; (3) priority given to the struggle against poverty; and (4) to maintain macro-economic equilibrium and gradual improvement of social conditions.

18 Diaz (1991: annex); Terre de Hommes, cited in SR-92-45 (1992: 10-11).

19 Diaz, 1991: annex; Programa de Economía de Trabajo (PET), Informe Anual 1990-91; *Conyuntura Económica*, Nos 11, 12-14.

20 National Institute of Statistics (INE), cited by Jaime Ruiz-Tagle (1991: 46). It has been

common since the 1960s and the work of the Economic Commission on Latin America and the Caribbean (ECLAC) to define poverty by comparing household income to the cost of a minimum food requirement basket, one that would meet the caloric and protein requirements of the household. A household is defined as poor if its income is equal to or less than two minimum food consumption baskets, and indigent if it is lower than one.

21 Programa de Economía de Trabajo, informe anual 1990-91 annex: 195.

22 In the initial adjustment period (1982-84) wage indexation was eliminated and a freeze was placed on wages in the public sector, effectively co-ordinating pressure for wage cuts in the private sector. The effectiveness of this wages policy was strengthened by unusually high rates of unemployment, above 20 per cent throughout the period, and in a context where union activity was forbidden.

23 Meller (1990:44).

24 On the convergence between neo-liberal and neo-structural approaches see Leiva (1994). Meller (1992) neatly summarises the mix of heterodox (structural) and orthodox (neo-liberal) policies adopted by different—and the same—regimes in Latin America.

25 Barkin (1993: 532).

26 On this, see the December 1992 issue of the IMI's *Finance and Development*, where this recognition and rediscovery of poverty is placed in the context of a 'new understanding' achieved by the Fund and others.

27 Inter-American Development Bank, *Annual Report 1991*.

28 This programme has become the model for similar well-funded social programmes instituted in the majority of countries in the region.

29 Cited in Latin American Special Reports (SR-92-5) (October 1992: 4-5).

30 *Latin America Press*, Vol 24, No 37 (1992:2).

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Just Out

PEASANT PROTEST IN POLITICS (Tebhaga Movement in Bengal)

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Chaudhuri Charan Singh

An Indian Political Life

Paul R Brass

Although accused of rank opportunism and lust for power with no regard for the interests of the country after the 1979 Janata debacle, Charan Singh was one of the last important leaders of the country whose active political life spanned the pre-independence political movements to post-independence party politics. He belonged to a generation of politicians whose political experience encompassed district, state and national politics.

This paper takes a close look at Charan Singh's involvement at all levels of the Indian political system, from state politics in Uttar Pradesh to national politics, land reforms, the backward class movement and peasant movements in northern India.

CHAUDHURI CHARAN SINGH, prime minister of India for a brief period after the fall of the Janata government in 1979, and twice chief minister of Uttar Pradesh (UP) during his long political career in that state, played major roles in transforming the agricultural economy of north India in the post-independence period and the politics of his home state and of the country as a whole during the last two decades of his life. Four aspects of his political career and his influence on contemporary north Indian politics seem to me to be especially important. First is the fact that his political career involved him at all levels of the Indian political system. Second, he became identified as the principal spokesman of the middle peasantry of India. Third, he was identified also with the aspirations of the so-called backward castes of intermediate social status between the elite castes and the lower castes. Fourth, he wrote a number of books, as well as political pamphlets, that presented an extremely sophisticated and coherent alternative development strategy for India entirely different from that of former prime ministers Nehru and Indira Gandhi.

I

Charan Singh was one of the last important leaders of the country whose active political life spanned the pre-independence Congress political movements and post-independence party politics up through the prime ministership of Rajiv Gandhi. He belongs to a generation of politicians whose political experience encompassed district, state and national politics. During the last two decades of his life, he moved out of the Congress into opposition and provided thereafter the central core of support for the Janata party, the first political coalition to defeat the Congress and form a government at the centre. His influence persists up to the present as several of the principal contenders for opposition leadership in north Indian politics struggle to gain preponderance over the political base which he controlled at the end of his life.

Charan Singh was a politician with rural roots in an agricultural district, with a firm base also in his own Jat community, the leading agricultural caste of western UP, Punjab, Haryana, and parts of Rajasthan. Between 1952 and 1967, he was also one of the three principal leaders in Congress state politics. He was a central figure in all the

major factional conflicts and cabinet crises which occurred in the UP Congress and government in the period from 1948 until 1965. Although he operated in the factional system of the UP Congress like other factional leaders, seeking constantly to undermine his rivals, to reward his supporters, punish his enemies, and attain power for himself and his allies, he stood apart from the others in his ability to articulate as well coherent policies and principles.

For example, a struggle with chief minister C B Gupta, the dominant UP factional leader in the 1950s and 1960s, led to an exchange of notes between the two men on the meaning of the collective responsibility of the cabinet. The struggle between them also led to the preparation by Charan Singh of a long memorandum opposing increased taxation on the peasantry of the state, in which he articulated cogently his arguments on behalf of policies which favour the peasantry and his opposition to large-scale capital-intensive investment in industry. C B Gupta in reply stood forth as a defender of the development path chosen by the Congress leadership in New Delhi.¹ Throughout all his conflicts during the first two decades after independence, Charan Singh presented himself as the spokesman of the peasantry, of agriculture over industry, and of an agricultural order based on a system of peasant proprietorship in which landlordism was abolished and all the peasants held economically viable landholdings.

Charan Singh also held clear and strong views on most aspects of state policy and administration during these years. As economic development expenditures became increasingly wasteful, as corruption became increasingly pervasive, especially in some of the most development-oriented departments of government, and as the vastly increased numbers of government employees ate up even more of the available funds for development, Charan Singh stood forth for close control of government expenditure, for stern measures to deal with corrupt officers, and for a firm hand in dealing with the demands of government employees for increased wages and dearness allowances.

In fact, Charan Singh was a strong advocate of firmness in maintaining law and order in general, including curbing the activities of political opposition and trade union movements and strikes. In 1957-58, when Charan Singh was revenue minister,

he responded to opposition political leaders who sought to use scarcity conditions in the eastern districts of the state to mobilise public opinion against the state government. In this crisis, Charan Singh analysed clearly the causes of scarcity, its actual extent, and appropriate measures to deal with it, insisting against all opposition claims to the contrary that revenue had still to be collected in the drought-stricken areas and deploring opposition efforts to arouse unreasonable expectations among the people.² He was also concerned during these years with the condition of police administration. His papers reflect Charan Singh's concerns about arguments with his rivals over their interference in police administration, which he saw corroding its integrity.

On April 1, 1967, Charan Singh defected from the Congress to join the opposition and then became the first non-Congress chief minister of the critical state of UP. He was one of the principal leaders in the politics of the period from 1967 to 1971, when non-Congress governments were in power, having himself inaugurated this period by his defection. During this period, he created a political movement and a new agrarian party, the BKD, whose core consisted of the middle status, middle size cultivating castes. The goals of this movement were to reorient the economic development policies of the state and the country as a whole away from large-scale industrialisation, big dams, and consumer industries for the urban middle classes towards policies emphasising investment in agriculture for the benefit of the rural cultivating groups and to provide employment in the countryside in small-scale industry for those without land of their own.

Charan Singh's penchant for dealing firmly with threats to public order was apparent during his two periods of tenure as chief minister of UP. After his second term, which lasted only seven months, I asked him what he considered to be the main achievements of his brief ministry. His response focused upon measures he took to prevent disruption of public order and the political activities of opposition forces; his firm handling of a Communist party-led land grab movement, the banning of compulsory membership in University student unions, the relative absence of strikes during his tenure, and his breaking of the one major strike which did occur.³ Such mea-

asures partly reflected Charan Singh's concerns to avoid the loss of government financial integrity through drains upon its resources as well as antagonism to the demands of urban workers whom he considered privileged in comparison with most rural folk. At the same time, there is no doubt that Chaudhuri Sahib, like his political mentor, Sardar Patel, believed strongly in the utmost importance of maintaining the public peace.

Charan Singh's capturing of power in UP, however, tenuous it was during this first period of non-Congress governments,⁴ and his formation of the BKD brought him into direct conflict with Mrs Gandhi and her efforts to consolidate her leadership of the Congress and rebuild the power of the ruling party in the country. He resisted repeated efforts on the part of Mrs Gandhi to get him to agree to a merger of the BKD and the Congress.⁵ He also denied Mrs Gandhi three votes which he controlled in the Rajya Sabha, which she needed to pass a constitutional amendment abolishing the privy purses of the princes. Mrs Gandhi responded to this blow to her policy goals and the associated threat to her political leadership of the country by withdrawing Congress support to the existing Congress-BKD coalition government in UP and subsequently by calling the 1971 parliamentary elections in which the Congress achieved its desired two-thirds majority in both houses of parliament.

From the mid-1970s until his death in 1987, the focus of Charan Singh's political activities shifted to the centre. This period includes the emergency, the formation of the Janata party, the formation of the Janata government, and the dissolution of the latter in July 1979. In all these events, Charan Singh played a central role. His political organisation and support base in north India constituted the core of the successful Janata party which defeated Mrs Gandhi in the post-emergency election of 1977. Frustrated at his failure to be selected prime minister of the country, he and his supporters formed a group in and outside the government of Morarji Desai and ultimately brought it down in 1979. In doing so, Charan Singh was accused of rank opportunism and lust for power with no regard for the interests of the country.

Nevertheless, even at this time, Charan Singh behaved as something more than an opportunist politician. For, throughout this period, he continued to articulate an alternative economic programme for the country and to support policies favouring agriculture and the peasantry. In the midst of the crises which marked his conflicts with Morarji Desai, on December 23, 1978, hundreds of thousands of the peasantry of north India, particularly from western UP and Haryana, were mobilised in his support in the capital itself. This intrusion of countless 'dhoti'-clad peasants in the nation's capital confronted its bureaucratic and intellectual classes, many of whom have never visited a village in their lives, with a spectacle which they resented deeply and mocked. For many planners and intellectuals in Delhi, these people are an abstraction not a reality. They

represent backwardness, encrusted tradition and uncouthness, people best kept out of sight while the country 'modernises'. Thus, however, opportunistically he behaved, Charan Singh confronted his opponents and the country with alternative policies and forced them to face the reality of the presence in the capital of the people in whose name they all claimed to speak.

In the 1980 elections, Charan Singh's Lok Dal emerged as the largest non-Congress party and he became leader of the opposition in parliament. He felt personally demoralised after the landslide election victory of Rajiv Gandhi in the 1984 elections, which reduced the representation of the Lok Dal to only two seats in parliament. However, his party remained the second largest in UP and the most important non-Congress party in the north Indian plain until his death.

Moreover, Charan Singh's influence has persisted beyond his death in 1987 as his political successors have struggled to gain control over his former political base. They include his son, Ajit Singh; the former chief minister of UP, Mulayam Singh Yadav; and the former prime minister, V P Singh. Ajit Singh's claim is based on the right of natural succession, but Mulayam Singh Yadav, Ajit's rival in UP politics, claims to be Charan Singh's true political heir, which he reinforces by saying that the latter had referred to him as 'my son'.⁶ V P Singh made the boldest claim of all in August 1990 with his decision to implement the Mandal Commission recommendation on reservation of places for backward castes in public sector services under the central government, thereby seeking to consolidate the hold on the backward castes of the Janata party under his leadership. At the local level also, particularly in the western districts of UP, candidates for office make use of a past connection with Chaudhuri Charan Singh in their election campaigns.⁷ Tikait, the famous Jat peasant leader of western UP, also claims the mantle of Charan Singh,⁸ though he has avoided any political party affiliations.

Clearly, therefore, in the course of his political career, Charan Singh has played a central role in several of the most crucial turning points in the history of the politics of India's largest state and that of the country as a whole. In addition to his role as a precipitator of crises or a central force in crisis periods in Indian politics, Charan Singh's participation in politics and his roles in these crises are of particular interest also for other reasons. During his long political career, he demonstrated mastery of the multiple 'idioms' of Indian politics: the 'traditional' idiom of caste and faction; the 'modern' idiom of party, parliamentary behaviour, and economic development planning; and the 'saintly' idiom of the crusader against corruption in Indian public life. Charan Singh was both a politically ambitious man and a man with clear policy proposals. His political life, therefore, raises the issue of how one successfully pursues both power and policy in a rough-and-tumble representative political system.

II

The second noteworthy aspect of Charan Singh's political career—in addition to his involvement at all levels of the Indian political system—was his role as spokesman for the middle peasantry.¹⁰ Throughout his active political life, he was identified with rural, peasant interests and values in a political tradition in India that draws its inspiration from Gandhi and from Sardar Patel, Nehru's principal rival for political power in the country in the early years after independence. He was the principal architect of the UP Zamindari Abolition Act, the most important piece of land reform enacted in the Indian state after independence and the most carefully-conceived of the acts of that type enacted by various state governments in India. Until the end of his life, Charan Singh considered zamindari abolition his principal achievement. Several of his books also deal with zamindari abolition, land reforms, and the establishment of an economically self-sufficient peasantry in UP.

Repeatedly, on issues of land consolidation, taxation and resource allocation, and price policy for agricultural produce, Charan Singh stood forth as a spokesman for rural over urban interests and for agricultural development as opposed to large-scale industrial development. He also opposed consistently the expansion of the state bureaucracy and the corruption associated with it, which he saw as an unnecessary drain on rural resources and of little benefit to rural interests.

In 1959, when the Indian National Congress adopted a resolution in favour of the introduction of joint, co-operative farming, Charan Singh opposed the policy. He proposed instead policies that would strengthen the existing system of peasant proprietorship and would sustain 'rural democracy' rather than co-operative farming, which he thought could be maintained only by undemocratic means. Finally, as noted above, after his earlier defection from the Congress, Charan Singh founded in 1969 the most successful agrarian party in modern Indian politics, the Bharatiya Kranti Dal (BKD), which later, under different names, also became the core of the opposition to Mrs Gandhi and her emergency rule and of the Janata Party that replaced the Congress in power in the centre from 1977 to 1980. Although Charan Singh and his political following were often accused of promoting the interests of a kulak class, his electoral support actually came from a broad range of land owning castes, including many small peasants.

III

The third central aspect of Charan Singh's political career was his identification with the interests of the so-called 'backward castes'. Charan Singh always saw himself as a Jat which meant for him, among other things, that he was not from an elite caste. Although he never himself adopted a militant public position on the matter of backward caste representation, he sometimes referred in private, with some resentment,

to the position of Brahmins and Thakurs in society and in public life. Moreover, he felt that the position of the backward classes in contrast, especially in the services and especially also in his state of UP, was deplorable. He kept in his head and would now and then recite figures showing that 45 to 50 per cent of particular government services were dominated by Brahmins, Banias, Khatri, and elite castes generally whereas the backward castes had negligible representation, amounting to less than one per cent in some departments. He would point out that Harijans, because of the reservations accorded to them in government services since independence, were far better represented than the backward classes. During the period of Janata rule between 1977 and 1979 at the centre and in north India, Charan Singh supported the reservation policies for backward castes adopted by the Janata governments of UP and Bihar. However, he did not argue for proportionate representation of positions for backward castes, but thought that the reservation policy of 15 per cent for recruitment of backward castes adopted by the UP government was reasonable.¹¹

The Mandal Commission report was in preparation during the time the Janata government was in office. In the last days of his own term as caretaker prime minister, in the midst of the election campaign in December 1979, and before the completion of the Mandal Commission report, Charan Singh brought before the other members of his government, particularly deputy prime minister Y B Chavan, a proposal to reserve 25 per cent of central sector positions for backward castes. However, nothing came of this move.¹²

The rise of backward caste movements in opposition to the political and economic dominance of elite castes in Indian politics has been a recurring political phenomenon in several Indian states. However, the social configuration of elite, backward, and low caste groups is more complicated and potentially more conflictual in north India than in Tamil Nadu and the Deccan for, in north India, the elite castes continue to be the dominant political and economic forces in the countryside and are also numerically larger than most backward castes. Moreover, since many of the backward castes are rural peasants with holdings large enough to employ low caste labourers and since their political demands for increased representation in public services and in educational institutions are similar to the demands made on behalf of low caste groups, backward castes and low caste groups are often in conflict with each other.

In his political life, Charan Singh faced a political dilemma in relation to his identification with the backward castes, which was that his support for their aspirations was critical in his own advancement, but that it also sometimes stood in the way of his formation of viable coalitions with elite and low caste groups. Charan Singh worked skillfully at the local, electoral level and in state and national politics to form alliances with other castes and community groups.

Although he was sometimes successful in forming such alliances, his solid and persistent political support always came predominantly from the backward castes.

Charan Singh's political dilemma reappeared very starkly in 1990 as his political successors sought to maintain control over his backward caste support base by implementing the Mandal Commission recommendations made nearly 10 years earlier for reservations of opportunities for backward castes in central government services and public sector enterprises, a move which antagonised and caused an electoral backlash in the 1991 elections among upper castes in north India and divided the backward castes as well between those, including the Jats, who were not included in the Mandal decision on reservations and those who were. In contrast, Charan Singh's public approach to the issue of backward caste representation combined a low-keyed, implicit appeal to their resentment over backward caste dominance in the services and other aspects of public and political life, based on a moderate backward castes reservations policy, with an explicit appeal to their economic interests as peasant farmers.¹³ Although many upper caste politicians and big farmers in UP politics did not like Charan Singh's identification with the backward and middle peasant castes, his public moderation on the caste issues and his emphasis on the common economic interests of all peasants irrespective of caste made it possible for him and his party to form electoral alliances at the local level with upper caste politicians.

IV

The final aspect of Charan Singh's life that deserves emphasis is his role as an author of several highly original books on land reform, agriculture, and economic development in India that take a broad comparative perspective and are of theoretical interests as well to scholars of economic development. Charan Singh's most important book, *India's Poverty and Its Solution*,¹⁴ was originally published in 1959 under the title, *Joint Farming X-Rayed: The Problem and Its Solution*, in response to the Nagpur resolution of the Indian National Congress, which proclaimed as one of the principal goals of the Congress the establishment of large-scale co-operative farms in India as a means of solving India's agricultural problems.¹⁵ Although the book takes off from the issue of co-operative farming and is an attack upon it, it is far more interesting as a positive statement of and proposal for an economic development strategy for India based upon agricultural rather than industrial growth and as a defence of the system of peasant proprietorship as the most suitable form of social organisation to achieve both the economic goals of development and the political goals of democracy.

The book was published at the height of the Nehru-era emphasis on an economic development model based upon rapid industrialisation, with agriculture seen pri-

marily as a resource base for industrialisation, providing food for the cities and revenue for plan projects. In this atmosphere, Charan Singh was seen as an obscurantist opponent of the modernisation of India. Yet, the arguments Charan Singh presented then anticipated later economic critiques of the rapid industrialisation strategy and calls for greater priority to agricultural development, as well as the world-wide concern with ecology and the avoidance of further destruction of man's environment.

Charan Singh's defence of peasant agriculture in India was based not only on economic and ecological, but also on ideological and political grounds. In an agricultural society, he insisted, democracy was dependent upon the existence of small farms. Large farms, whether capitalist or collectivist, were inimical to democracy. Both types of big farms inevitably involve concentration of power and the direction of farm operations by a few, offering to the peasantry the prospect of a countryside "turned into huge barracks or gigantic agricultural factories".¹⁶

Charan Singh's book *Joint Farming* was also a plea for the necessary priority to and capital investment in agriculture to bring about what 10 years later would be called a 'green revolution'. Even before the development of the new wheat and rice varieties, he thought that it was realistic to envision a doubling or tripling of India's food production by applying appropriate capital inputs. However, what distinguishes Charan Singh's proposals from those advanced through the international research institutes, the aiding agencies, and the government of India are their orientation toward the interests of the self-sufficient or potentially self-sufficient peasantry and their explicit emphasis on the economic, political, and even the moral values of a system of peasant agriculture. In a word, Charan Singh was insisting that technology and capital inputs must be applied to Indian agriculture not willy-nilly, but in a carefully controlled manner designed to sustain a particular socioeconomic order, political system, and way of life.

Although Charan Singh's economic ideas are complex and scholarly, he did not present them for the edification of economists. In fact, he several times condensed them and presented them as the central sections of the manifestoes of the political parties he led. As such, these manifestoes are by far the most sophisticated ever issued in India.¹⁷

In summary, Charan Singh's political and economic ideas provide an entry-point into a much broader set of issues both for India and for the political and economic development of the remaining agrarian societies of the world. His political career raises the issue of whether or not a genuine agrarian movement can be built into a viable and persistent political force in the 20th century in a developing country. His economic ideas and his political programme raise the question of whether or not it is conceivable that a viable alternative strategy for the economic development of contemporary agrarian societies can be pursued

in the face of the enormous pressures for industrialisation. Finally, his specific proposals for the preservation and stabilisation of a system of peasant proprietorship raise once again one of the major social issues of modern times, namely, whether an agrarian economic order based upon small farms can be sustained against the competing pressures either for large-scale commercialisation of agriculture or for some form of collectivisation.

Since his death in 1987, a kind of 'deification' of Charan Singh's life has been taking place among those who knew him. It is being said that Charan Singh belonged to another and higher category of leaders from those who walk the Indian earth today and that the times as well have changed for the worse. My own perception of Charan Singh is of a flawed political leader, who achieved much, but also much less than he hoped partly because of his relentless drive to exercise power and his contempt for most of his political associates and rivals. Flawed though he was, he stood apart from most of his political opponents—and the urban intellectuals who hated him—in intellect, personal integrity, and in the coherence of his economic and social thought. Flawed though the political times were during most of Charan Singh's political career, they appear in the light of the political transformation in Indian politics since the mid-1970s as—if not a 'golden age'—at least an age when there was a dialogue on the meanings of virtue and corruption, on the boundaries of permissible political methods of attacking one's rivals, mobilising public opinion, exploiting religious passions, and the like.

The dialogue of virtue and corruption which existed in the first two decades of independence permeates Charan Singh's papers on district politics in UP. They are filled with charges, counter-charges, and defences made against Charan Singh by local politicians and by Charan Singh against his rivals and the rivals of his district supporters. They include complaints about bribery, casteism, favouritism in appointments, misuse of election machinery, and connections between politicians and criminals.

These papers also provide further insights into the dynamics of political mobilisation and competition at the local level, previously examined in my own work in the 1960s and in the works of several other political scientists and anthropologists.¹⁸ Equally important to the insights these papers provide on political behaviour are the way the charges and accusations are received and answered, what they reveal about the values and moral standards of the participants at the time, especially, of course, Charan Singh, who valued his personal honesty and integrity and devalued all others who departed from his own rigorous standards. However, serious the accusations and charges appeared at the time, they are qualitatively different from those that are made now, as are the facts. Bribery, casteism, favouritism, misuse of election machinery, and the criminal connections of a few politicians have been replaced by large-scale institutionalised political and bureaucratic

corruption, charges and actual cases of considerable local violence before and during elections, and the interlinking of police, politicians and criminals in networks of illegal activity, including murder and the deliberate instigation of so-called communal riots for political purposes.

There was a political dialogue in those days also on the proper goals of the Indian state and economy, on how it might be possible for India to achieve economic growth and satisfy the minimum needs of its poor. Charan Singh himself often forced such dialogues upon his rivals in correspondence, notes, and memoranda in the midst of factional and policy debates. His position was not always the obviously correct one, but the dialogues he initiated provide a commentary on both his times and the times thereafter.

Notes

[In 1983, I expressed to Charan Singh my wish to write his biography, in connection with which I was allowed to go through all his papers and files and to make copies of materials which were of particular interest. A few references to material in Charan Singh's papers are made in the notes to this paper.]

1 For a more detailed discussion of this issue, its relationship to factional conflicts in the Congress, and the role of opposition parties at the time, see Paul R Brass, 'Uttar Pradesh' in Myron Weiner (ed), *State Politics in India* NJ: Princeton University Press, Princeton, 1968, pp 100-109 and Paul R Brass, 'Division in the Congress and the Rise of Agrarian Interests and Issues in Uttar Pradesh Politics, 1952-1977' in Paul R Brass, *Caste, Faction and Party in Indian Politics*, Vol 1: *Faction and Party*, Chanakya, Delhi, 1983, pp 309-312.

2 Letter of Charan Singh to Shibban Lal Saxena, MP, dated March 26, 1958.

3 Interview with Charan Singh at his residence, 34 Mall Avenue, Lucknow on July 25, 1973.

4 Non-Congress-led coalition and Congress governments alternated in power in UP in the years between 1967 and 1971. The first non-Congress coalition government under Charan Singh lasted from April 3, 1967 until February 17, 1968. It was followed by a Congress government under C B Gupta, which lasted from February 26, 1969 to February 10, 1970. Charan Singh again led a coalition, this time with the Congress, from February 17, 1970 until October 2, 1970. The last non-Congress coalition in this period was led by T N Singh, whose government lasted from October 18, 1970 to March 30, 1971. Congress single-party rule, turned under the chief ministership of Kamlapati Tripathi on April 4, 1971. For further details, see Brass, 'Division in the Congress and the Rise of Agrarian Interests and Issues in Uttar Pradesh Politics, 1952-1977' op cit, pp 318 ff.

5 Interview with Charan Singh at his residence (34 Mall Avenue, Lucknow) on July 25, 1973. See also Choudhary Charan Singh, *The Story of New Congress—BKD Relations: How New Congress Broke the UP Coalition*, Lucknow, BKD, 1970.

6 Interview in Lucknow on June 24, 1991.

7 B g, see reports on the 1991 election in Bulandshahr Lok Sabha constituency in *The Times of India*, May 17 and 18, 1991.

8 *India Today*, March 15, 1988.

9 W H Morris-Jones, *Government and Politics of India*, Hutchinson, London 1971.

10 On this matter, see also Terence J Byres, 'Charan Singh, 1902-87: An Assessment', *Journal of Peasant Studies*, Vol XV, No 2 (January 1988), pp 139-89. Byres acknowledges Charan Singh's devotion to the middle peasantry and the support he received from them, but argues at p 147 that "the rich peasantry have been the major gainers" from his policies.

11 Interview with Charan Singh at the Surajkund Inspection House, outside Delhi, on March 24, 1978.

12 Letter from prime minister Charan Singh to deputy prime minister and minister of home affairs, Y B Chavan dated December 3, 1979. This episode deserves more attention, but the papers do not indicate the results of the cabinet meeting held to discuss the proposal. A previous decision had been made to defer the introduction of such a reservation scheme, but the pressures of the election campaign may well have impelled Charan Singh to look for a dramatic measure to give it a boost. However, the adoption of such dramatic actions with uncertain political consequences was not a characteristic feature in Charan Singh's political life, in which he usually displayed considerable caution.

13 A former associate of both Charan Singh and V P Singh compared the latter's policy unfavourably with that of the former by remarking that V P Singh had "divided peasants into... Mandal peasants and non-Mandal peasants", thereby making a "mess of everything [although], on the surface of it, it looks very good that he has made a formidable combination". In contrast, he said, "Charan Singh never talked of Mandal and he got everybody. ...When he talked of ...exploitation of rural people and village as centre of development, ...that was more Gandhian... And in the meantime, due to that, not only Jats but even Brahmin[s], Thakur[s] were also voting for him [though] maybe in lesser numbers. But, he [Charan Singh] made a peasant base. V P Singh destroyed that". Interview in New Delhi on June 11, 1991.

14 Charan Singh, *India's Poverty and Its Solution*, Asia Publishing House, London 1964.

15 Some of the material in this and the following three paragraphs is derived from Brass, 'Division in the Congress and the Rise of Agrarian Interests and Issues in Uttar Pradesh Politics, 1952 to 1977', op cit, pp 30-34.

16 Charan Singh, *India's Poverty*, op cit, p 103.

17 See, Bharatiya Kranti Dal, *Aims and Principles*, signed by Charan Singh, Lucknow, 1971, and Lok Dal, *Election Manifesto*, 1979.

18 Vide esp, Paul R Brass, *Factional Politics in an Indian State: The Congress Party in Uttar Pradesh*, University of California Press, Berkeley, 1965; Myron Weiner, *Party Building in a New Nation: The Indian National Congress*, University of Chicago Press, Chicago, 1967; Richard Sisson, *The Congress Party in Rajasthan: Political Integration and Institution-Building in an Indian State*, University of California Press, Berkeley, 1972; Donald B Rosenthal, *The Expansive Elite: District Politics and State Policy-Making in India*, University of California Press, Berkeley.

Dalits and Non-Brahmin Consciousness in Colonial Tamil Nadu

V Geetha
S V Rajadurai

The emergence of dalit political voice in the Tamil region in the 19th century predates the political expression of non-brahminism and was influenced by the transformations inaugurated by colonialism.

This article examines the works of some of the more prominent dalit intellectuals who lived and worked in the closing decades of the 19th century.

THE emergence of a dalit consciousness and a dalit political voice in the Tamil country during the last quarter of the 19th century is a phenomenon that has received very little critical and scholarly attention. What is even less known is the fact that such expression of a distinctive dalit sensibility predated the political expression of non-brahminism in the Tamil regions of the old Madras presidency and eventually came to constitute an important and decisive flank of the non-brahmin movement. Tamil life and consciousness were transformed by the complex of events and intellectual practices inaugurated by colonialism and these transformations had contributed to the so-called 'panchamas' acquiring a measure of dignity and self-worth.¹

The last decades of the 19th century saw the emergence of dalit journalism as the newly literate and bilingual panchama intellectuals came to negotiate their lives and history in the changed circumstances. Like their upper caste counterparts, panchama intellectuals were well-acquainted with contemporary debates in history, historiography, linguistics as well as with developments in the related fields of epigraphy, numismatics and textual herenutics. They were also keen observers and participants in the game of appropriating and 'owning' history, a game which had become an all-too-serious occupation of native intellectuals and their colonial masters. Panchama intellectuals were actively involved in political and social reform activities aimed at the 'uplift' of their community and some among them were extremely sensitive to the politics of caste that underwrote all nationalist and social-reform efforts.

In this article we propose to examine the thoughts of some of the more prominent dalit intellectuals of the day, who lived and worked in the closing decades of the previous century and in the early decades of this one.

One of the most fascinating and sadly neglected figures of late 19th century Tamil intellectual life is Ayothidas Pandithar. A panchama by birth, he was born in a village, in Coimbatore district. His given name was Karthavarayan, but in later years, he adopted the name of his teacher-scholar, Ayothidas

Kaviraja Pandithar. Ayothidas' writings reveal him to be well-acquainted with Sanskrit, Pali, English and of course, Tamil. He was familiar with ancient Tamil classics and seemed to have been learned in the philosophical thought of not only Hinduism, but Buddhism, Jainism, Islam and Christianity as well. In his youth, he was attracted to Advaita Vedanta and founded the Advaitananda Sabha in 1870 in Nilgiris where he spent his early years. During this period in his life he mobilised tribal people in the area under the auspices of the Sabha against the proselytising activities of Christian missionaries.

Later in life he came under the influence of Colonel Olcott and helped him and Annie Besant set up panchama schools in Madras city. Colonel Olcott seemed to have been instrumental in Ayothidas renouncing his Hindu faith for Buddhism. He accompanied the former to Ceylon in 1898 and even addressed a Buddhist congregation there. On his return to Madras he founded the Chakya Buddhist Sangam in Royappetah with the avowed aim of reviving Buddhism in Tamil country. The Sangam organised regular lectures on Buddhism, Atheism and speakers included Lakshminarasu, M Singaravelu Chetty and Ayothidas himself. (By this time, Ayothidas had moved away from the theosophists in his outlook and views.) The activities of the Sangam provoked Saivite scholars such as Kathiravel Pillai into refuting Buddhist philosophy. However, at least one Saivite scholar, the nationalist non-brahmin, Thiru Vi Kalyanasundaranar admitted that the talks and discourses that he attended and listened to helped to moderate his excessive Hindu feelings.

Prior to founding the Chakya Buddhist Sangam, Ayothidas had founded in 1881 the Dravida Mahajana Sangam. In that year the Colonial Census was begun in earnest and Ayothidas, on behalf of the Dravida Mahajana Sanga, memorialised the colonial government on an issue that was to remain a concern of his all through his active and intellectual life: he submitted that the depressed classes (chiefly pariah) should, henceforth, be referred to as 'Poorva Tamizhar'. The first conference of the

Dravida Mahajana Sangam was held on December 1, 1881 and it would be interesting to consider its charter of demands here, for they anticipate future demands and more important to our purpose, tell us something about the calibre of the men who constituted the Sangam: (1) A law should be enacted to severely punish those who refer to the depressed classes as 'pariahs' in order to degrade and insult them. (2) Since education was crucial to progress, separate schools should be opened in each village for the children of the depressed classes, who should also be given a 50 per cent concession in school fees. (3) Out of those students from the depressed classes who pass matriculation exam every year, three students should be selected by the government for a stipend grant so as to enable them to continue their studies till graduation. (4) Employment in government service should be ensured to all those among the depressed classes who have passed their matriculation examination. (5) There should not be any hindrance to people of the depressed classes from acquiring employment opportunities in various (government) services on the basis of their educational qualifications and conduct. (6) Representatives of the depressed classes should be appointed in villages and towns who would report to the government on their grievances regarding employment opportunities. Even while taxpayers amongst the depressed classes are selected for employment in government services, such selections should be based only on educational qualifications and conduct. (7) Section 46 A of the Prison Manual should be abrogated, since it assigns only lowly jobs such as scavenging to depressed classes prisoners in jails. (8) Depressed classes should be allowed the right to collect drinking water from public wells and tanks without any hindrance. (9) The existing bar on pariahs which prevents them from entering and sitting in offices and courts where upper caste Hindus are employed should be lifted. (10) Persons from the depressed classes of good character and conduct should be chosen for the post of village 'munsiffs' and 'manikatars'. When the district collectors visit the villages, people from the depressed classes should be given the opportunity to

contact them directly and air their grievances and seek remedial measures. While most of these demands focus on the educational and professional needs and expectations of pariahs, some of them represent a will and desire on the part of the panchama to carry themselves with self-respect. Education is seen here as a great leveller and the chief means of access to secular as well as political power. These demands were sent to Veeraraghavachariar, the general secretary of the Indian National Congress but there was no response and in 1908 Ayothidas recalled that even after a lapse of 17 years he had not heard anything from the Congress. He also noted that the demands had not elicited any response from even those Muslim organisations to whom they had been sent in 1881.

Ayothidas was highly critical of Congress-nationalist representative claims and of their policy of 'reform along national lines'. He was not convinced of the imminent good of native self-government and found the British more acceptable than the brahmins. He often observed that it was only with the arrival of the British the panchama had been brought to a realisation of his own humanity, since it was the British who first affirmed his selfhood and treated him like a human being. As far as he was concerned, the Congress was a party of 'brahmanas' who were intent on perpetuating caste inequalities and prejudices. Ayothidas was particularly harsh on Congress squabbles, as were evident during the Surat Congress of 1906 which saw a scuffle break out between the 'moderates' and 'extremists'. He considered such fights most unbecoming of an organisation that claimed its members were enlightened and educated. In this context he observed that the Congress was characterised by a lot of talk and noise and wondered whether such a body as the Congress would be able to act at all, if self-government were indeed made a reality: "Will they make pariahs governors and the brahmins army commanders? Never. Instead they will argue that the low castes cannot govern, while the high caste brahmanas are not trained to fight. Will they at least agree to brahmins being given the posts of governors while the pariahs are asked to be army commanders? Certainly not. The reason being that they (the brahmins) will seek to remember their historical enmity towards Buddhism and fear to make pariahs army commanders, since the latter might plan revenge." (Ayothida writings constantly play off the wisdom and egalitarianism of Buddhism, which he claims to have been the original religion of the pariahs, against the inherent folly and deceptions of brahminism, a theme we shall soon have occasion to consider.)

To Ayothidas, self-government would be possible only when "Brahmins cease to run away in fear on seeing a pariah and when

pariahs cease to chase away Brahmins and throw cow dung at them when the latter enter the pariah quarters in the village; and harmony prevails between the two and they come together as brothers and when the Buddha dhamma is realised." Ayothidas observed that self-government could not be had by the boycott of foreign goods and noted that what was, in fact, required and necessary was the boycott of practices of caste, religion and of toddy shops. The nationalist boycott of foreign goods, especially cloth, said Ayothidas, merely results in the price of cloth going up which causes hardship to the poor. Ayothidas' objections to self-government stemmed not only from his suspicion of Congress intentions but also from a deeply felt gratitude to the British. It was not that he saw the white man as a saviour for on a different context he wrote that employment in a white man's home brought only temporary relief to the pariah; while proximity to the white man confirmed the pariah in his own humanity, it also brought him uncertainty since he often had to move his home and belongings at the behest of his masters who were prone to travel. Ayothidas was not particularly enamoured of Christianity as well. The Christian convert was still marked by caste and continued to be referred to as a pariah Christian and it seemed to him that one might as well look to the liberalism and egalitarian outlook of modern caste Hindus than to the church. But, fundamental transformations in pariah's life and consciousness had been effected by the coming of colonial rule and western learning and Ayothidas, like other panchama intellectuals, was acutely aware of these transformations and their far-reaching implications. In the context of the working out of a perverse historical logic inaugurated by colonialism he and others like him stood steadfast on the side of the British.

But what distinguishes Ayothidas from his contemporaries and marks him out as an intellectual figure of great originality was his appropriation and use of Buddhism in the context of 19th century colonial caste society. Buddhism was not a living tradition in the Tamil country during his times and, as we have seen earlier, Ayothidas donned the Buddhist faith only after his visit to Sri Lanka. Ayothidas' own intellectual roots lay in the ancient Tamil system of Siddha medicine and to this faith of healing he brought an adequate worldview as represented in the Buddhist faith. His thought was pervaded by a critical sensibility that derived as much from a hermetic healing system, conventionally practised and transmitted through the iconoclastic and radical Siddhars as it did from the strengths of Buddhist philosophy. Ayothidas' works also reflect their author's familiarity with contemporary debates in history and religion as well as with the rejuvenated Tamil learning

of the late 19th century.

His works may be considered as falling into two parts; though it must be said here that this division is of a purely heuristic value, for the actual texts are sustained by a singular ethos or informing principle. Ayothidas sought to produce, on the one hand, a genealogy of brahminism, as a political, religious and social philosophy; while on the other hand he attempted to construct an alternative intellectual and spiritual tradition and one rooted in the life and historical experiences of Hindus. This latter he located in Buddhism, but a Buddhism that he endowed with a new historical and social significance. Ayothidas relies on literary texts to corroborate his ideas and his writings are often an exercise in hermeneutics. We shall consider here his understanding of brahminism and some of those hermeneutical re-readings that he articulated with great sophistication.

GENEALOGY OF BRAHMINISM

Ayothidas' ideas and views were systematically argued out in a weekly that he launched in 1907. This weekly was called *Oru Paisa Tamizhan* (One Paise Tamilian) and its first issue was brought out on June 19, 1907. A year later the prefix 'one paisa' was dropped at the request of the readers. After Ayothidas' death, his son Pattabiraman took charge of the weekly from November 17, 1914 and continued until August 26, 1915. Later it was edited and published by G Appaduraiar, a disciple of Ayothidas and an early self-respecter from Kolar Gold Fields (from July 7, 1926 to June 27, 1934). The weekly was read by Tamilians everywhere—in those parts of India where Tamilians had migrated, in Burma, South Africa. *Tamizhan* and several tracts which expounded Ayothidas' opinions constitute the archive, from where one may glean information regarding his chief concerns and theories. *Tamizhan* serialised a tract (*Poorva Tamizhholi*) that was subsequently published as a book in 1912. The tract contains an argument that underwrites all of Ayothidas' major observations on history, religious life and cultural development in the sub-continent. Here, he argues that the pariahs were, in fact, the original Tamils whose religion was Buddhism. Pariahs were degraded and their religion systematically destroyed when Aryan invaders from the north (Ayothidas refers to them elsewhere as Arya 'mlechhas') imposed their rule and culture on these original Tamils. As far as Ayothidas was concerned historical development in the Tamil country (and the subcontinent, as a whole) followed a pattern in which was visible the steady and gradual decline of Buddhism and the way of life it enjoined and their substitution, through the use of deception and cunning, by brahminical Hinduism. This Hinduism had been imposed on Bud-

dhist-pariahs by those Aryan mlechchas who attempted to arrogate to themselves the power of a class of wise men who were in fact the traditional custodians of ethical norms and values in pre-Aryan society. These wise men had renounced the world and its 'joia' and had dedicated themselves to the education of their people in morality and ethics. Ayothidas characterised these men as yathartha brahmanas—the real brahmanas—and noted that they were of Buddhist faith and were the original, authentic and genuine 'gurus' whose fame, learning and wisdom had been (mis)appropriated by Aryan mlechchas or Persians. These latter were thus veritable false prophets or as Ayothidas put it 'vesha brahmanas' (pseudo-brahmanas).

In a tract titled 'Indirar Desa Charitiram' (History of Indirar Desam) Ayothidas declared that the subcontinent was, in the past, known as 'Indirar Desam', or the land of Indirar. Indirar was none other than the Buddha who had managed to control his five senses ('Indiriyams') successfully. The term 'India' to Ayothidas, derived from the earlier 'Indirar'. Likewise, Bharat was but a transmuted form of the word 'Varatha', one of the names by which the Buddha is known. Ayothidas held that it was the vesha brahmanas who had coined the word 'Hindu' and made it acceptable to even Mohammedans and Europeans, ensuring thereby its permanence as a term of reference.

How did the vesha brahmanas succeed in their endeavours? Ayothidas contended that they practised a fine art of deception and cunningness on the natives of Indirar Desam and, having succeeded in their initial attempts to acquire power and glory, sought to perpetuate these by falsifying texts, re-writing them in some instances and Hinduising Buddhist works. Thus, "In order to acquire those honours and respect which accrued only to our spiritual teachers (the yathartha brahmanas), they (the vesha brahmanas) approached the illiterate chieftains and citizens (of Indirar Desam) and claimed falsely that they were also 'arhats'; besides they also sent their women to the kings, distracted them into debauchery and thus corrupted them. They did all they could to pass themselves off as (yathartha) brahmanas, worthy of worship by all. Those who fell prey to the sophistry of the vesha brahmanas became Hindus. Those who rejected them were the Buddhists. The Buddhist scholars were then degraded and came to be known as pariahs."

Ayothidas also argued that the so-called 'Vedic culture' and 'the pride of Indian civilisation' were nothing but the constructs of western Orientalists. He observed that neither the Shankaracharya nor Ramanuja or Madhvacharya had worked to bring together the four Vedas into a cohesive and unified text. When the British came into

India, the (vesha) brahmanas declared themselves to be the highest caste, whereupon the English asked them for their religious texts. The brahmanas then sought to put together a religious book of the Hindus from a variety of texts espousing mutually contradictory ideas. Ayothidas pointed out that, after all, for the past several hundreds of years the vesha brahmanas had worked to erase the distinction between Buddhist texts and their own. For instance had they not succeeded in modifying and adopting as their own the Upanishads that were originally Buddhist creations? Therefore when the British asked to see their definitive religious text, "the vesha brahmanas appropriated some of the Buddhist historical and moral texts and added these to the incomplete translation of the Vedic myths done by the Zoroastrian Dara Shikoh. These were then presented to Colonel Bolier, Sir Robert Chambers, General Martin, Sir William Jones and Mr Colebrook who, in turn, translated these manuscripts and brought them together into a single large work which, when published, became a book that could be claimed by the Hindus as their Veda. It is this textual rubbish that passes for the Hindu religious texts today". Ayothidas was extremely critical of Max Mueller's attempt to conflate Buddhist texts with the creations of the vesha brahmanas and of his granting precedence and importance to the latter: "Max Mueller has failed to situate and judge the language that existed in Buddha's time, his message, the languages that were refined by Buddha and the Upanishads of the Buddhist sangams in the context of their respective time frames. Thus he does not know which came first—the Upanishads that have reached his hands or Buddha Dhamma. He has expressed opinions that are baseless. Are we to devalue the histories, evidence of copper plates and inscriptions on the basis of one man's opinion? Certainly not."

Ayothidas' critical strategies reveal him to be working on several issues simultaneously. On the one hand he re-interprets the historical defeat of Buddhism in India at the hands of brahminical Hinduism to signify the corruption of an ethical and spiritual tradition that was inherently egalitarian and rational. On the other hand he locates this fact of a corruption in the systematic marginalisation and degradation of a section of society that ostensibly refused to be lured by the new faith; that is, he identified the 'downfall' of the pariahs with the triumph of brahminism and the caste order. The brahminical victory was not merely a political act with far-reaching social implications but it also represented a semiotic conquest. As Ayothidas never tired of pointing out, the slavery and degradation to which the pariahs were submitted were facilitated in and through the skilful and treacherous deployment of language and meaning by the

vesha brahmanas. In a series of remarkable tracts, Ayothidas established the details of this semiotic conquest. He analysed 'puranic' and literary texts to demonstrate the various hermeneutic and textual tactics utilised by the vesha brahmanas to reiterate the fact of pariah lowness.

In Ayothidas' view, the late medieval text, *Arichandra Puranam*, based on the puranic tale of Harishchandra, narrated the tale of a king who was prepared to go to any extreme to please the brahmins and willingly accept self-humiliation. He pointed out several contradictions in Arichandra's behaviour, as described in the text and argued that these instances prove that the hero had, in fact, lied on several occasions. Ayothidas indicated that Arichandra refused to part with his 'victory umbrella' to the two pariah girls who had been created from the breath of the sage Vishwamitra and sent by him to please the king. The girls on the instructions of their begetter had asked for the umbrella and when refused had pleaded that the king take them as his consorts but he had angrily denounced their aspirations, noting, meanwhile, that they were lowly pariah women. When the sage came to intercede on their behalf the king had noted that the laws that govern kingship forbid the king from marrying a low-caste woman; whereupon the sage revealed their true parentage and the king, known for his truthfulness, confessed he had not known of this—which Ayothidas establishes to be a lie, for the girls had introduced themselves as the daughters of Viswamitra. Arichandra, to compensate for his earlier lapse, now offered his kingdom to the sage who took his word to mean a promise and strove to accept the same. Thus Arichandra who had refused a gift of his umbrella to the pariah women came to willingly part with his kingdom and, eventually, his wife, all at the behest of a wily brahman who, in his turn was merely 'testing' his virtue. To Ayothidas this was further proof of the characteristic deception of the vesha brahmanas who thus concealed their true motives and intentions and came to a disrupt and re-order the lives of the credulous. To demonstrate a further instance of brahmana deception, Ayothidas said that Veerabahu, described in the purana as a pariah who cremates dead bodies, was actually a king belonging to the Chakya dynasty and an ancestor of Buddha. The vesha brahmanas who subjugated the people of Indirar Desam had, thus, deliberately distorted the facts and portrayed this king as a lowly putaya of the cremation grounds.

If, in his re-reading of *Arichandra Puranam* Ayothidas attempted to demonstrate the deliberate denigration of pariahs and the inferior status and role assigned to them in the narrative, in another thought-provoking tract, *The Inquiry of the Skull-Bearer's Story*, he showed the wilful

Hinduising of an original Buddhist practice and creed. Quoting from ancient and medieval literary texts, he argued that the present-day Mylapore in Madras was once the home of valluvans (chakyars) who were not Hindus and were, in all probability, Buddhists. The existing Saivite mutt in Mylapore, observed Ayothidas, was, once, the abode of the valluvans and had contained in it a reclining statue (the Buddha is usually portrayed in a reclining posture). Further, the Shivarathri festival that is being celebrated in the temple and mutt at Mylapore (as at all Saiva temples and places of worship) was actually meant to consecrate the day of Siddharta's renunciation of his princely life and his leaving home, bowl in hand (for alms) as a day of remembrance. The Tamil word for the begging bowl, noted Ayothidas, is 'karahol' which later became twisted into 'kabbalam' (meaning 'skill') by the Saivites. Thus Karaboleeswaran (the lord with begging bowl in his hands, in other words, Buddha) became Kabaleeswaran (lord with skull in hand). Accompanying this change in name was a changed narrative as well. Now, the vesha brahmanas, the Saivites, in this instance, conceived of the myth of Siva removing one of the five heads of Brahma at the instigation of Parvathi; the detached head stuck onto Siva's hand and he, therefore, came to be known as Kabaleeswaran. In yet another version of the myth, Brahma was beheaded for having had sexual intercourse with his own daughter and the severed head got stuck on Siva's hand. To Ayothidas these myths constituted enough proof of the folly and falsehood of the religion brought in by the vesha brahmanas. More importantly they also served to identify, by contrast, the significance attributed to the begging bowl in the lord's hand in Buddhism. Whereas Buddhism had sought to remember a noble and rational deed through the image of Buddha with the begging bowl in his hand, brahminical Hinduism had only served to vulgarise and erase the immense importance of the Buddha's message and had replaced the original tale with a totally implausible and irrational patchwork of fanciful stories. Now Shivarathri was celebrated by the faithful going to the cremation grounds the morning after keeping vigil for Siva the previous night and performing meaningless rituals and the Buddha's day of renunciation had all but been forgotten.

Ayothidas' most felicitous re-reading of texts and history was undertaken with regard to a text that has remained the most contested, desired and revered of all Tamil ancient and modern texts. The *Thirukkural*, a compendium of knowledge, morality, political wisdom and romantic love as well of social conduct has, to this day, remained a sort of touchstone of 'Tamilness', a honoured

instance of the civilisational and cultural achievements of the Tamils. Ayothidas considered this text as Buddhist in inspiration and observed that its author was a Buddhist. He also said that the text adhered to the three 'pitakas' taught by Buddha—the 'Dhamma pitaka', 'Sutra pitaka' and 'Vinaya pitaka'. The text was originally known as *Tirikural* (tiri=three) and was the first Buddhist text in a Dravidian language. It was because the *Tirikural* was such an important text and an obviously Buddhist one that several myths had grown around it, said Ayothidas. For instance, Thiruvalluvar's parentage had invoked a lot of interest, and as Ayothidas argued in his tract entitled *The History of Thiruvalluvar*, become an important means to confirm or reject the validity of his work. According to Ayothidas, the popular myth regarding Thiruvalluvar's birth that describes him to be the child of a brahmin father and a pariah mother was a 19th century interpolation of partisan brahmin and caste Hindu scholars, who had come to deploy it to their own advantage. The myth was nothing but an attempt on the part of these scholars to allude the fact of Thiruvalluvar's valluvan origins and deny and mask his Buddhist sensibility. Ayothidas saw this myth as yet another illustration of vesha brahmana guile and cunning. He noted that when the British came to India, brahmin scholars who served as native instructors had sought to habitually degrade pariahs in their masters' eyes and succeeded in depicting them as despicable and obnoxious. This, to Ayothidas, was in keeping with the historical practice of brahmins that had always characterised Buddhists and their spiritual leaders as pariahs. Thus, while the brahmins were careful in insisting that they were, in fact, a homogeneous community they had come to identify at least 13 sub-sects amongst the pariahs. They did not want to appear as if they, the brahmins, were split into a 'hundred and eight' groups since they claimed a singular descent from Brahma's head! It is small wonder then that they felt impelled to recreate the details of Thiruvalluvar's parentage, for they had to now account for the fact of a lowly valluvan's genius and wisdom, without at the same time detaching him completely from his 'origins'. Hence, the story of a birth through miscegenation.

Ayothidas narrates the sequence of events that lead to the interpolations concerning Thiruvalluvar's birth: In 1825, Ellis, a British civil servant set up a Tamil sangam in Madras and asked Tamil enthusiasts to bring to him ancient Tamil manuscripts for publication. Manuscripts of *Thirukkural*, *Thiruvalluvar Malai* (a hagiography of Thiruvalluvar and his work) and *Naladi Nanmuru* were brought to Ellis by one Kandappan, a butler in the service of another Englishman, George Harrington. Ellis published the manuscripts with the help of

his manager Muthusamy Pillai and a Tamil scholar Tandavaraya Mudaliar. Ayothidas noted, in this context, that he had learnt from the magazine *Suryodaya* that Kandappan had complained to Ellis that four new verses had been added to the original version of *Thiruvalluvar Malai*. But neither this edition which was published by Ellis in 1831 nor a 1834 edition mentioned Thiruvalluvar's parentage or referred to his being born to a brahmin father and a pariah mother. But, interpolations were found in later texts, especially in a 1835 edition of *Thiruvalluvar Malai* brought out by Vishaka Perumal Iyer and in a 1837 edition brought out by his younger brother Saravana Perumal Iyer. To Ayothidas, this discrepancy between the 1831 and 1834 texts on the one hand and the 1835 and 1837 texts seemed significant and even deliberate. He declared that the publishing of the *Thirukkural* (by Ellis) must have made evident to the vesha brahmanas the existence of an ethical text of a very high order and one written by a valluvan, a member of the despised valluvan caste (valluvans were a sub-sect of the pariahs). Whereupon the brahmanas must have felt the need to reconcile their claims regarding the low and degraded status of the pariahs and valluvans with this newly discovered proof of their intellectual strengths and achievement. Thus, concluded Ayothidas, they came to construct a new genealogy for Thiruvalluvar and began to circulate stories that said he was, originally, of a noble birth. Different versions of these stories seem to have been in vogue and in the 1847 edition of these texts by one Muthuveerapillai and Vedagiri Mudaliar, we find that Thiruvalluvar's birth is being linked to puranic myths. To Ayothidas, the presence of these often absurd and mutually inconsistent stories indicated that they had all been conjured up with the avowed aim of alluding the Buddhist origins of Thiruvalluvar and with the intention of co-opting him and his work into the brahminical Hindu value system.

AN ALTERNATIVE WORLDVIEW

What is important to note of Ayothidas' re-readings of history and literature is that they reflect a concern and anxiety over the semantic import of the term 'pariah'. Ayothidas' own research had convinced him that the present-day pariahs were the original inhabitants of this land whose religion had been the compassionate, rational and egalitarian creed of the Buddha. The historical defeat of Buddhism (and the conquest of the Buddhist faithful) had created the society of the pariahs. The venom and distaste with which the word was used in caste Hindu society and its various connotations and denotations seemed to Ayothidas important aspects of a rhetorical and political strategy that had been in historical use for the sole purpose of keeping the former

Buddhists down and unaware of their glorious past and heritage. For his part, Ayothidas sought to de-construct the term and locate it in a history of brahminical domination. By doing so he not only provided an ideological understanding of the pariah's condition but also came to evolve an alternative worldview for the pariahs of the future and one that would link them to a forgotten past. It was for this reason that he discarded both Christianity and Islam as inadequate contexts for the pariah to realise her/his subjectivity. For these religions were, after all, 'alien' and, while they would help the pariah to get out of the clutches of brahminism would leave them with very little else to confront the fact of brahmin hegemony in the sphere of politics and ideas; since the converted pariahs would always remain marginal to developments in Hindu society as a whole. But if they could be shown to exist in a contradictory and antagonistic relationship to brahminical Hinduism, if they could be endowed with a history of which they were once the agents they would, in time, evolve into a position of strength to combat the wiles of a corrupt priesthood. It was because Ayothidas did not desire to see pariahs co-opted into Hinduism that he strongly opposed the social reform along national lines. He said: "Not content with characterising us as pariahs, they proclaim that they are going to reform the depressed classes. When asked who the depressed classes are, they say, the pariahs and chandalas".

As far as Ayothidas was concerned this shift in terms of reference from 'pariah' to 'depressed classes' was indicative of rank hypocrisy on the part of the nationalist reformers. For one thing this change in name was only the continuation of the old brahmin practice of referring to Buddhists as pariahs (thereby refusing to acknowledge their Buddhist origins) in another form. The new term did not explain or refer to the pariah in his/her historical context and only served to reify their lowly status. Besides, even as they resorted to the use of the euphemistic term, the nationalist reformers sought to retain their old biases through other means. They introduced the new practice of putting up signboards inscribed with words such as 'Paracheri Street', thus ghettoising the pariahs' existence.

The question arises, how did Ayothidas envisage the political and social liberation of the pariah? We had earlier referred to the demands of the Dravida Mahajana Sangam founded by him. His political principles were in keeping with the nature of the demands outlined in that charter. That is, he did not desire to confront with and replace the British raj with a native government for reasons we have noted earlier. Like the non-brahmin/Dravidian ideologues he saw in brahmin power and hegemony a greater threat to the well-being of a majority of

citizens in caste Hindu society than in the colonial presence. He was even willing to close ranks and work with non-brahmin Hindus—the sudras—against brahminism, though he never desisted from criticising caste Hindus for their anti-pariah prejudices. Unlike that other great pariah leader and activist, Rettamalai Srinivasan (who happened to be his brother-in-law), he did not wish to remain within the Hindu fold even if this meant losing privileges and concessions granted to pariahs by the government. To him the future of the pariahs could not be resolved or even imagined without constructing a past that would explain and condemn Hinduism. In this sense he may be said to have anticipated Ambedkar.

Ayothidas left behind him a legacy of learning and a tradition of critical-political hermeneutics that was put to good use by those who came after him. This legacy and tradition proved inspiring to not only other panchama intellectuals but also to the self-respecters. The Sri Siddhartha Puthagasalai (Sri Siddhartha Publishing House) that his followers founded, continued to publish interesting and important tracts even after his death and in the 1930s published the writings of the self-respecters. Now it remains to be seen how the legacy of Ayothidas was nurtured by his followers.

OTHER PANCHAMA INTELLECTUALS

We had mentioned earlier that there was no living Buddhist tradition in the Tamil country at the turn of the previous century and that Ayothidas constructed and activated a Buddhist worldview. However we wish to point out here that he was not the only one to do so. There were other panchama intellectuals who also used Buddhism as a normative creed, against which the historical as well as the spiritual deceptions of brahminical Hinduism could be measured. A tract titled *The Example of the Caste Difference* was published by the Sri Siddhartha Puthagasalai in 1929. This was obviously a later edition of a late 19th century text, as its content indicates. Its author was one M Masilamani who, like Ayothidas, seemed to have been a versatile and creative man of learning. This tract (unfortunately we have not been able to lay our hands on any of his other works) anticipates not only the principal arguments of Ayothidas, who wrote most of his theoretical and critical works in the first decade of our century, but also bears a remarkable resemblance to some of the ideas and opinions of F V Ramasamy Periyar. A short description of its contents seems, therefore, in order.

This tract attempted to uncover the basis for difference and hierarchy within the Hindu caste order. Its chief purpose, not surprisingly, was to establish the inconsistencies

and contradictions that underpin the brahminical view of caste. Masilamani was extremely familiar with current theories of race, history and society. He argued with great skill, utilising Max Mueller's theoretical schema of historical development in the Indian sub-continent, that the brahmins were foreign invaders who imposed on a civilisation of great antiquity.

This ancient civilisation, he observed, was pacific in character, eschewed violence, abstained from the taking of alcohol and followed the creed of the Buddha. Pre-Aryan culture and society in India were also well-advanced in such fields as architecture, metal work and art. These former and glorious achievements had, however, been systematically denigrated, marginalised or simply appropriated by brahmin-Aryans, whom, Masilamani wrote, had never a good word to say about any faith but their own. However, pre-Aryan civilisational forms and identity, he insisted, may still be found in those human creations that sought to express a mortal person's needs and aspirations, pre-Aryan peoples had, thus, left behind traces of their existence in formal artistic creations such as statues; in symbols such as the lingam; and in the orthographic evidence of the 'sasanas'. But Masilamani was not overly sanguine about this darkened past. He pointed out that no sooner had the Aryan-brahmins established their dominance by conspiring against pre-Aryan kshatriyas and deceiving them, they came to erase the history of the conquered. They wrote their own histories, in the form of implausible and fanciful tales and inscribed themselves into these texts of their own creation; so that all history seemed to exist only to gratify them and confirm them in their dominance.

Masilamani also wrote of how brahmins came to reign supreme. First, they cheated and co-opted the rulers of the land and, secondly, they made themselves indispensable not only as ministers and guides to political action, but also as astrologers, soothsayers medicine men and law-givers. Further, they made sure that the benevolent rulers of pre-Aryan times such as Iliraniya and Ravana were remembered not as good and selfless kings but as monstrous, anti-brahminical fiends. Masilamani recalled, in this context, the tale of Parashurama and noted that Parashurama's triumph signified the symbolic victory of the Aryan-brahmins over the native rulers, some of whom had remained firm in their resistance to them. Masilamani was careful in pointing out that the brahmin did not triumph by force and guile alone, but also by employing tactics of persuasion and co-option. Thus the four-fold division of castes was instituted with strict ordinances governing conduct, labour and even interaction amongst and between discrete caste groups. All castes, however,

were to defer to the brahmin and fulfil his needs and consider such a task the highest virtue they could aspire towards. In other words, they were to willingly accept their lowly status and affirm the brahmin's superiority. It is interesting that Masilamani considers the effects of brahmin dominance in terms of its materiality. For instance, he argued that as a mark of deference, castes such as the vaishyas and sudras made over their best grown grain, usually paddy and wheat, to the brahmins while they remained content with cereals such as jowar and millet. The brahmin thus ate the most nutritious food while other castes had to make do with lesser grains. What we have here is an attempt to explain poverty and lack of good food in terms of a power structure that was not interested merely in material wealth but required and asked for ritual homage and exclusive honours. Masilamani saw this mode of domination and control as perverse and claimed that it was in direct contrast to the pre-Aryan times when each person was as respected as the other and where all religions co-existed peacefully.

Masilamani found the four-fold division of castes arbitrary and unjust. He ought to criticise caste using rational criteria. He said that elsewhere in the world a division of labour does not necessarily congeal into a stratified system, involving differences in the status and power of its various constituents. He found brahmin assertions of their essential difference and inherent purity inconsistent and hypocritical. He argued that men such as Vyasa and Vishwamitra, revered as the greatest as sages, had not been born into brahminhood but had attained it through their deeds. But there were countless others—such as Vamadeva who ate the carcass of a dog—who not only flouted their own rules of purity and difference, but insisted that such a violation of codes did not affect their brahmanic status. Masilamani's question was simply this? If non-brahmins could grow into brahminhood through good deeds, do brahmins grow out of brahminhood because of their transgressions? This question was a rhetorical one and by asking it Masilamani was only pointing out the utterly arbitrary manner in which certain qualities had been classified as brahminical while certain others, such as the eating of meat and drinking wine, were considered quintessentially sudra qualities.

Masilamani tested the creed of brahmin purity and difference by systematically interrogating the so-called brahminical virtues. He observed that brahmins claimed they were pacific in nature and abhorred injury to any living creature and did not eat meat. But, asked Masilamani, they do not hesitate to subdue and chasten animals for domestic use. Brahmins were wont to argue that they attained brahminhood through a rite of passage deemed essential for them:

the 'upanayanam' ceremony where the brahmin boy is invested with the sacred thread. The wearing of the thread was an act that facilitated their passage from sudrahood to brahmin status. Masilamani considered this passage into superiority to be somewhat like a grafting operation wherein part of a plant is grafted on to another so that it would bear luscious fruit. But he was not convinced of its efficacy, for as he rightly asked, the graft does not work with kamalas, chettys and valluvans, all of whom wear the thread but are never considered as pure as brahmins. Neither was Masilamani convinced of the brahmin's conventional defence of the superior status, that he was deemed superior because he was learned. Masilamani wondered how such a claim may be held in these modern times when, not only pariahs, but also white men have access to and have, in many instances, studied the sacred texts. Masilamani did not believe, as was argued in some quarters, that brahmin exclusivity was perpetuated through the following of different habits of eating. Brahmins might claim their food was pure and clean, but had not the food been originally produced and processed by the sudra and pariah? Brahmins might argue that they were a fair-skinned race different from their dark-skinned brethren, but it is the case that Dravidian brahmins are dark-skinned as well! Masilamani found it absurd that in spite of the contradictions between precept and practice, differences between brahmins and others should be made the basis of brahmin privilege. Brahmins are not different from other men in respect of their mortal and human needs. They were subject to the same fears, expectations and travails of the flesh and spirit as others, were subject to the universal process of birth, growth and decay. Their conduct was also unexceptional and, in fact, their history of deception stood testimony to their characteristic falsehood. Masilamani was scathingly critical of the argument that a 'sacred birth' was the basis of the brahmin's superior status. He wondered whether the birth of a brahmin child was any less painful and traumatic to the woman on account of the child being a sacred creature. If brahmins were, indeed, sacred noted Masilamani, then why is that the brahmin widow undergoes untold suffering? Besides, are they spared all those travails their sex is routinely subjected to?

Having thus demolished brahmin claims to high ritual status, Masilamani went on to probe into the dynamics of the purity/pollution idea. Brahmins, he said, do not mind standing with sudras and others at a ticket counter in a railway station to obtain their tickets, but are averse to sharing the same carriage space with them. Likewise they did not mind working in a hospital run by missionaries where they have to work with and touch pariahs for it brought them money and

fame. However, if the pariah so much dares to offer a glass of water to the brahmin outside of the hospital premises the brahmin perceives himself defiled. Masilamani considered these and other such instances of flexible orthodoxy hypocritical and noted ironically that brahmins 'fix' the quantum of purity that may be considered to reside in an object on the basis of their own needs. Thus a mud pot is seen as being rendered unclean by the mere glance of a sudra is therefore broken as unfit for use. However, copper and silver vessels are not discarded thus, the argument being that vessels of pure metal do not secrete pollution. Gold, in this scheme of things, was a pure metal; so was paper money the equivalent of gold in its form of currency.

Masilamani found the effects of a creed or caste on women's lives most cruel. He noted that the logic of brahminism ordained even brahmin women to be sudras until such time as they were given in marriage and their marriage was consummated. Just as now wearing the sacred thread was supposed to produce a brahminisation of the male soul, so was consummation of marriage deemed the sole means through which a woman may loose her sudrahood and become a brahmin. But, pointed out Masilamani, women were not consistently pure like brahmin men. They menstruated and hence became defiled at least four days a month. Besides, death of a husband effected a loss of brahminhood that could be redeemed only by such mortificatory acts as the shaving of one's head. Masilamani was acutely sensitive to the sexual politics of brahminism and wrote movingly about the wretched existence of the Hindu widow. He saw the subordination of women and the sudras and pariahs the real basis of brahmin power and noted that in former times, women were free to even choose their husbands, a practice that the Aryan-brahmins had distorted to their own advantage. It is interesting to note that Masilamani's views on women are very different from those held by Ayothidas. Ayothidas was convinced that a woman's glory lay in service to her husband and counselled women to be patient and sacrificing. Masilamani, on the other hand, saw women as active and desiring subjects who had been wilfully subjugated. Masilamani's opinions of brahmins it is clear were not very different from Ayothidas'. The latter had noted that brahmins often wrapped themselves in a 'mantle of jealousy', hid deception in their hearts and spouted 'words as poisonous as poisoned steel' and that their minds were constantly 'fixed towards the disruption of communities'. Masilamani went a step further and exhorted sudras and panchamas to abjure brahmin priestly services, renounce brahminical rituals, refuse the lowly ascriptive status granted them by the brahmin and eject from their minds the

time-honoured prescriptions of Manu. Like other panchama intellectuals Masilamani was deeply grateful for the white man's presence and he, in fact, saw the coming of the white man, the consolidation of his power and his aptitude for government as symptomatic of a millennium that would disrupt and ultimately destroy brahmin tyranny and usher in a brave new egalitarian age.

Ayothidas (and Masilamani before him) inaugurated a critical and polemical tradition of tract-writing that had its adherents writing well into the 1930s. Prominent among them were men such as Maduraiar and Appaduraiar, though the Sri Siddhartha Puthagasalai nurtured many such talents, many of whose works probably are somewhere, waiting to be discovered. Maduraiar in a tract titled *In and Out Religions* continued the theme of Buddhist-pariah defeat at the hands of the scheming brahmana. This tract attempted to view the fact of brahmin dominance in the context of a religious history of the peoples of this subcontinent. Maduraiar distinguished an 'internal' religious system, comprising all those beliefs and practices that make up popular Hinduism, from those external religions, such as Jainism and Buddhism, that relied on human reason and intelligence to comprehend the world and humanity. Internal religions—Maduraiar's concern, here, is only with brahminical Hinduism—are characterised by anthropomorphic features and compel the worship of the five natural elements, birds and animals, allow for the practice of mindless and irrational rituals, encourage superstition and, most importantly, enjoin a constant servility of the faithful before a conspiring, deceiving clergy. Hinduism, argued Maduraiar, was constituted as a faith presided over by a brahmin priesthood, out of a plethora of practices that were amassed into a whole by a self-serving group of priests. As far as Maduraiar was concerned, Hinduism acquired its powers, chiefly because it instilled in its faithful a fear of god and priest and because it rendered the act of worship passive; whereby the faithful were asked to be patient and parasitic upon the benevolence of deities that were shown to respond favourably to ritual homage and offerings. Thus religious practice became a matter of giving and taking favours that flowed freely between the god and its worshippers. Maduraiar also pointed out that the Hindu faith with its complex of lies, inventions and superstitions, possessed an infinite capacity to expand, absorb and co-opt new faiths and observed that it was not very surprising that Hindus today should proclaim they have no difficulty in accepting the teachings of Christianity and Islam.

Maduraiar drew a contrast between this 'internal' religion and those 'external' faiths—Jainism and Buddhism—both of

which he said were based on rational ideals of behaviour and conduct and which relied on the comprehensive powers of the human intellect to acquire true knowledge and spirituality. When these faiths had ruled over the land, people had lived in unity, eschewed differences and tolerated various ideas and opinions. Then, society was not divided into castes and men and women were known by the professions and occupations they followed, but such differences in occupation were not made the basis for a social and ritual difference in status, amongst various groups of people. Maduraiar was convinced that these rational and egalitarian religious systems had been systematically destroyed by brahmins who came to view their religion with its reliance on custom and precept as an 'internal' religion and all those that opposed the brahminical faith as 'external' religions.

Those that refused to give up on their 'external' faith came to be denigrated and marginalised as pariahs, while those that sought refuge in the 'internal' faith of the conquerors, thinking they could somehow redeem it from within, were classified as sudras. Elaborate rules were devised so as to preserve brahmin exclusivity and children born of brahmins and men (or women) from other castes were deemed to be sudras (if the mother was from a low caste), pariahs (if the mother was a pariah woman) and chandalas (if the father was a sudra).

Maduraiar also argued, in a vein reminiscent of Ayothidas, that the adherents of the 'internal' religion appropriated and, somewhat reluctantly, sanctified the spiritual teachers and prophets of the external religions, such as Avvaiair and Thiruvalluvar, both of whom, it was claimed, were born of brahmin fathers. Maduraiar further noted that with the triumph of the internal religions, the occupational categories that had obtained during the time of the external religions were ossified into categories of caste. This caste classification was extended to the non-human world of animals and birds as well. But, as Maduraiar wryly noted, while there were brahmin as well as pariah horses and brahmin as well as pariah eagles, the dog, whether white (like the brahmin) or black (like the dark-skinned pariah) was invariably referred to as a pariah! The term pariah was also extended to include all those Buddhist practices and beliefs and also some Jain ones. (Maduraiar held that, unlike the Buddhists, Jains had come to, eventually comprise with the adherents of the internal religion and had, therefore managed to survive, unlike the Buddhists who turned away and were, hence, marginalized.) Like Ayothidas, Maduraiar was deeply sensitive to the import of the term, 'pariah' and considered it an instance of linguistic corruption; that is, language itself had been made the basis of a difference

and, thus, the pariah was damned to remain tied to his/her lowly status, since language habitually inscribe a circular world of meaning around its object. Thus a pariah is a pariah...

Maduraiar analysed the various terms and euphemistic names that had historically been used to refer to the adherents of the external religions. He noted that the category of pariah worshippers known as 'thirukulathars' who were held to be ardent devotees of Vishnu had been created to mask the fact of their forced co-option. Likewise, in the course of their status quarrels with kammalas, brahmins had come to designate the pariahs as part of the right hand group of castes—the 'valangai'—that was opposed to the left hand group castes—'idangai' which included the kammalas. Pariahs had, thus, been used as pawns in an astute game of absorption, co-option and marginalisation, played to perfection by the brahmins. Maduraiar considered this strategy of thus isolating and yet marking the pariahs as a special category to be alive and well in modern times and indicated how Gandhi's characterisation of pariahs as 'Harijans' was but a continuation of an old tradition of refusing to acknowledge the distinctive religious and ethical orientation of pariahs, who were the original Buddhists. It must be noted here that Maduraiar was extremely critical of Gandhi and considered him a servant of the brahmins. He criticised in the strongest possible terms Gandhi's role in the signing of the infamous Poona pact and pointed out that on several occasions Gandhi had avoided coming to terms with the issue of pariah identity; which is why he attempted to reconcile the fact of their lowly status with his own belief in the varna system by resorting to neologisms. He said the pariahs were 'avarna Hindus' that they were 'athuvijar' who did not come within the four-fold division of castes and hence had to be dealt with separately. In other words, he refused to accept the fact of their deliberate exclusion by caste Hindu society and did not seek to demonstrate brahmin culpability in this matter.

Maduraiar, like Masilamani and Ayothidas, was satiric and scornful of brahmin claims to exclusivity and refused to acknowledge their status as priests of the community. He declared that, usually as is the practice in Islam, a religious leader or priest partakes of the joys and sorrows of the community and allows the community to share his knowledge, sorrow or happiness. Brahmins, however, remained aloof from all other sections of the community and only sought charity from them, which they did not dispense amongst the poor and the needy but kept to themselves. Maduraiar was convinced that brahminical cunning knows no bounds and observed that with the coming of Europeans, brahmins had taken to calling them-

selves Aryans. Thus they allowed themselves the option of turning to the white man for succour, in the event of Hindus becoming unified and discarding differences of caste; at the same time, they maintained their links with Hinduism, for if the white man was to suddenly refuse an Aryan identity, brahmins would have to fall back on their own. Maduriar ended his observations on religious systems in India by noting how, in spite of everything and against all odds, pariahs had attempted to recover and preserve their past learning in the fields of astronomy, medicine and other sciences by publishing long forgotten manuscripts. This, he considered, had been made possible by the efforts of the British to encourage publication of old texts. The British had, thus, served as a catalyst for pariahs to remember their lost intellectual glory. Maduriar concluded his arguments by exhorting pariahs to keep the Buddhist faith and follow its rational and egalitarian teachings. Buddhism, he wrote, alone possessed the capacity to endlessly correct itself and had, in fact, served as the basis for the modern philosophies of atheism, rationalism and nihilism. In this sense the pariahs, by adhering to Buddhism, would be carrying ahead a historical tradition of dissent. For, had not Buddhism resisted brahminism in the past as well?

Apart from such polemical tract-writing, panchama intellectuals also took to writing fictional accounts of present-day life, so as to demonstrate the folly, absurdity and downright cruelty of certain social conventions and practices. Nellai Rathinasabapathy wrote an amazing piece of fiction titled *The Tears of the Poor* that sought to lay bare the horrors of widowhood. Instead of pious moralising, the author created a piece of fantasy to make his arguments powerful. The tale begins in this mortal world, where a young widow is subjected to all sorts of humiliations and finally dies at the hands of her brother who is aghast that she should break the codes of widowhood by looking out of the window. The author comes to know of her fate and while reflecting on the dead woman's travails, drifts into sleep and dream.

Next, we find the author sojourning in a world where women have taken over. In this dream-world, roles are completely reversed, with men suffering all those trials and tribulations traditionally reserved for women in our mortal world. The author is horrified to find that a friend from former times is being subjected to various kinds of torture, as would be inflicted on a young widow on earth. He comes to learn that men, such as his friend who had opposed widow-remarriage and other schemes for women's welfare and progress, were all being similarly harassed. He also learns that escape from this women's city is impossible, for the

place was surrounded by a vast stretch of water that cannot be easily traversed. This stretch of water, he is told, comprises the tears of all those wronged women, especially young widows, and unless the tears dry up there can be no reprieve for men. Even as the author is struck by the poetic justice of all that he had seen, he wakes up. What is remarkable about this tale is its ingenious mingling of moral with fable. Also, the author seeks to arouse the male conscience by appealing to their sense of fairness and justice. His credo is simple: Do unto others as you would have others do unto you.

There were other such fictional tracts, all of which were written to unmask a social ill, recommend a particular course of reform, expose a certain hypocrisy...Some of the tracts were written during the days of the self-respect movement. Maduriar's study of religions, for instance, explicitly links the creed of self-respect with a Buddhist past. Others, such as Gopal Chetty's *History of Adi-Dravidas* attempted to disseminate at the popular level theories of panchama origins and proclaim their former glory. In every instance, tract writers sought to communicate the fact of panchama (though the writers and their imagined community of readers were all pariahs) dignity and historical worth and almost all of them identified brahmins and brahminism as the arbiters of the caste order and as the cause for the degradation of the panchamas. The sudras are looked upon as kindred castes who had falsely aligned themselves with brahminical Hinduism and we find Maduriar pleading

with his sudra readers that they ought not to treat panchamas in the same manner as the brahmins treated them. Whenever the tract writers referred to current political events they were all invariably critical of Congress nationalism and some like Maduriar and Ayothidas before him sought to make common cause with the sudras.

It is in this sense that we consider panchamas as a very significant but neglected flank of the non-brahmin movement. While contradictions between panchamas and sudras arose many times remained a constitutive rather than a disruptive feature of non-brahmin politics; at least until the advent of the Gandhian consensus with respect to panchamas. Panchama intellectuals also accepted the characterisation of non-brahmins as Dravidians and men like Ayothidas were possessed of a deep and abiding sense of 'Tamilness'.

Note

[This article would not have been possible without the help of M Ashok, son of late Munusamy Parayar, a dalit activist, who very generously allowed us to look into his father's collection of dalit tracts and who provided us with back numbers of *Oru Paisa Tamizhan* and *Tamizhan*. We also wish to thank P S Mani and Thirunavukarasu whose earlier articles on Ayothidas were useful for the biographical details.]

1 Throughout this essay, the term 'panchama' has been used in a merely descriptive sense. All quotations in the text are from the original tracts of Ayothidas et al published by Sri Siddharta Puthagasalai, Kolar; and by *Tamizhan*.

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Breast-Feeding and Working Mothers

Mina Swaminathan

ARUN GUPTA and Jon E Rohde's article 'Economic Value of Breast-Feeding in India', *EPW*, June 26 is a commendable attempt to lift the discussion about breast-feeding into the macro-economic sphere by attempting to quantify some of the critical parameters. Undoubtedly this is a good way to create awareness about the importance of breast-feeding for the welfare of children and hence for the economy in general among social scientists and policy planners accustomed to thinking along macro-economic lines. As a dramatic device to focus attention on this issue, it evokes ungrudging respect from those of us in the 'soft' disciplines who often seem to have trouble in being heard. However, the authors appear to be working from a limited perspective and have failed to attend to certain crucial social dimensions of the problem. As a result, they tend to draw simplistic conclusions, trivialise some issues and take a fragmented, uni-dimensional view which may do little to promote the very cause they seek to serve.

In estimating the quantity of breast milk produced by Indian women, the authors have not mentioned the undeniable link between lactation performance and the nutritional and health status of the mother. While they may have taken it into account in calculating what they describe as "a conservative lower daily production estimate" of 600 ml per day, the authors seem unaware of the implications of the link—namely, that promotion of breast-feeding, if taken seriously would require nutritional support to a large number of malnourished and anaemic Indian mothers who cease or reduce breast-feeding, not out of perversity but as a consequence of poor lactation, among other reasons. It may be a worthwhile economic exercise to estimate the costs of such support.

It is known that there are very few empirical research studies about the lactation performance of Indian women, and analogies have often to be drawn from studies of similar populations elsewhere. However, the honest statement that their estimates of losses in breast milk production are "educated guesses by experienced observers" is followed by the extraordinary and flippant remark that "this could be readily modified by the curious reader" which merely trivialises the issue, and casts doubt on the seriousness of the approach.

It seems that for purposes of calculation,

an average value of daily milk production by Indian women has been taken. This however, could be very misleading, since it has been established that production varies considerably over the entire period of lactation, as a result of many factors including both responsiveness to infant demand and level of maternal nutrition, among others. The production of milk builds up slowly over the first two or three months and is related to infant demand; while later on, a variety of factors are responsible for increase, maintenance or decline of milk production. Failure to take this into account would lead to considerable errors in the final result.

In the paragraph on household economy, the authors seem to have proceeded on the untenable assumption that in all cases of partial or no breast-feeding, the infant is given the full amount of substitute milk required for healthy optimum growth, and then calculated that this costs Rs 450 per month. Anyone familiar with Indian poverty conditions would quickly appreciate the weakness of this assumption. In many poor homes, the quantity of powdered (or other substitute) milk given to the infant is most often not at the optimum level. The tendency in fact is to give the child far too little of the powdered milk in a diluted form, and much below the level required for satisfactory growth. Besides, the child may be given other foods such as tea or gruel in place of breast milk, or offered other adult foods and hence remain malnourished. By ignoring the social reality dimension, the authors may have trapped themselves into

arriving at exaggerated figures of consumption of substitute milk. Such dramatic comparisons may be impressive in their impact, but do not rest on sure foundations.

This tendency to ignore the social constraints and confine themselves to a narrow perspective leads to the simplistic conclusion at the end of the paragraph "those who opt for the difficult and undesirable method of bottle-feeding in order to seek work outside the home, may be gaining small fiscal benefit at considerable health and nutritional risk to the infant" (*italics mine*). This statement, which has serious implications, can be faulted at several levels.

To begin with, that women opt to work implies a freedom of choice which rarely exists. At the risk of repeating the obvious, it must be stated that most women who work outside the home in India are poor and are working not out of choice but out of necessity, to help provide two meals a day. There is also now increasing evidence that large numbers of women are the primary family bread-winners, with the responsibility for feeding themselves and their children. Such women are faced with the cruel dilemma of either 'opting' not to work and facing starvation or 'opting' to work in order to feed their families. If they are breast-feeding mothers, they have to face a further dilemma of either leaving their infants behind with too little inappropriate and unhygienic substitute foods or carrying them along (if permitted to do so) to unsuitable, dangerous and unhygienic work places where conditions for breast-feeding are far from ideal. Add to this the likelihood that such women may themselves be in a state of health that does not allow for optimum lactation and we would begin to get some idea of the dimensions of the problem so

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casually dismissed by the authors. The 'small fiscal benefit' may in fact be the amount required for survival among populations where the raw materials for the daily meal are purchased every day at the end of the day's work and where food is not cooked on the days no daily wage has been earned. While all working women may not be living on this margin, substantial numbers do and a very large number are just above it.

As for the small numbers (in both absolute and percentage terms) of working mothers at the other end of the economic spectrum who may have a greater degree of freedom of choice, it should be understood that their choices are not determined only by fiscal benefit on the one hand to be ranged against "health and nutritional risk" on the other. Since the reproductive period of a woman's life tends to coincide with a critical phase of her life as a productive worker and since the present laws and conventions of the work place are not supportive of breast-feeding by working mothers, such women are faced with another kind of cruel dilemma, having to 'choose', with no social support, between breast-feeding and adverse consequences on work and career. To place the responsibility (and the guilt) for making such choices entirely on the woman, in isolation from the legal, social, and cultural climate in which she exists, betrays a very narrow understanding of the issues.

In this context, my calculations (1991) of the numbers of working mothers of young children below six who require child care support services and of the numbers of young children who require such services, is, in national terms, about 20 million women and 45 million young children. It would be useful if the authors could apply their skills to calculate the number of working mothers with young children below two who require breast-feeding. That would be a genuine step forward in working out the kind of support programmes needed to enable these women to combine breast-feeding with work (as well as those others who are kept off the labour market or forced to seek lower paid employment because of lack of child care facilities and their need to breast-feed and take care of young children. Only a broader understanding of the various dimensions of the problem can help in moving towards actions that will promote breast-feeding. Otherwise we are in danger of going back to the stereotyped categorisation of women into 'good' mothers who stay home and breast-feed and 'bad' mothers, who prefer to work, which seems to be implied in the facile statements made about opting to work instead of breast-feed.

Finally, in the last paragraph comes an astounding change of ground. Suddenly, we are urged to unite all efforts to protect the *public* (italics mine) from the onslaught of commercial interests intent on replacing mothers' milk with artificial substitutes. Concern for children has inexplicably been transformed into agonising on behalf of the public. It is very hard to see how the public is in danger, unless the word is read as an euphemism for tax-payer. Again, the villains of the piece seem to be the 'bad' mothers who consciously 'opt' out of breast-feeding, thereby, by some mysterious logic, endangering the hapless 'public'. This may be merely careless writing but if taken seriously one would have to question the underlying values.

One cannot but welcome the support for the promotion of breast-feeding from economists who can offer quantified arguments in its favour. However, quantification would be more valuable if based on a holistic perception which does not betray indications of growing out of an essentially anti-woman stance.

In an earlier article on this theme ('*Breast-feeding, the Working Mother and the Law*', *EPW*, December 28, 1991) I have argued that "laws and policies which attempt to promote breast-feeding by merely restricting artificial feeding without providing for positive social support measures may be damaging to children, besides being unfair and unjust to women" and have urged the need for comprehensive laws and policies that will promote women's right to breast-feed. I also went on to analyse some of the constraints placed by current laws and policies on breast-feeding by working women. While all authorities recommend at least four months of exclusive breast-feeding, the present maternity laws applicable in the organised sector, in which 11 per cent of the female workforce is found, allow for an average of only six to 10 weeks leave after childbirth. Thus the mother is obliged to reduce or discontinue breast-feeding and return to work and to 'opt', often against her will, for artificial feeding, which the new laws make more expensive and hard to get.

On the other hand, in the unorganised sector, in which 89 per cent of the female workforce finds itself, there are no laws or policies at the national level to help women stay off the labour market for four months (though many do so out of concern for their children and appreciation of the household economics of breast-feeding). Some states, like Gujarat and Tamil Nadu, have recently started schemes offering cash benefits at childbirth to women below the poverty line, but these seem highly inadequate in relation to the need, and no objective assessment has yet been made of their reach or effectiveness.

As regards nutritional and health support to lactating women, the most outstanding success story is that of Tamil Nadu Integrated Nutrition Project; but even here it is reported that less than 50 per cent of the eligible women took advantage of the supplement. The reasons for this phenomenon have remained unexplored, but those familiar with the field situation would realise that it could well be related to the obvious but strangely ignored fact that women are not only mothers, but also workers at the same time. If the timings of food distribution are such that a woman must choose between going to work and collecting her supplements, she may 'opt' for the former.

These are the kind of parameters that macro-economists would do well to take into account in developing their arguments. Rigorous studies on lactation performance and maternal nutrition, realistic assessment of use and cost figures, conceptual differentiation between 'social' and 'household' costs, etc, need to be made and the necessary tools developed, if they are not already available. But this will not be enough. In addition, comprehensive reviews of laws and policies and evaluation of schemes and programmes based on recognition of the triple roles of women as mothers, producers and consumers will be needed to develop support services for breast-feeding mothers. Only then can the campaign for the promotion of breast-feeding move from the level of slogans, ritualistic celebration of days and weeks and token activities into that of action that will support millions of poor women to breast-feed. Economists with their powerful tools and their commanding influence on policy can make a fine input into this campaign if they join hands with other disciplines.

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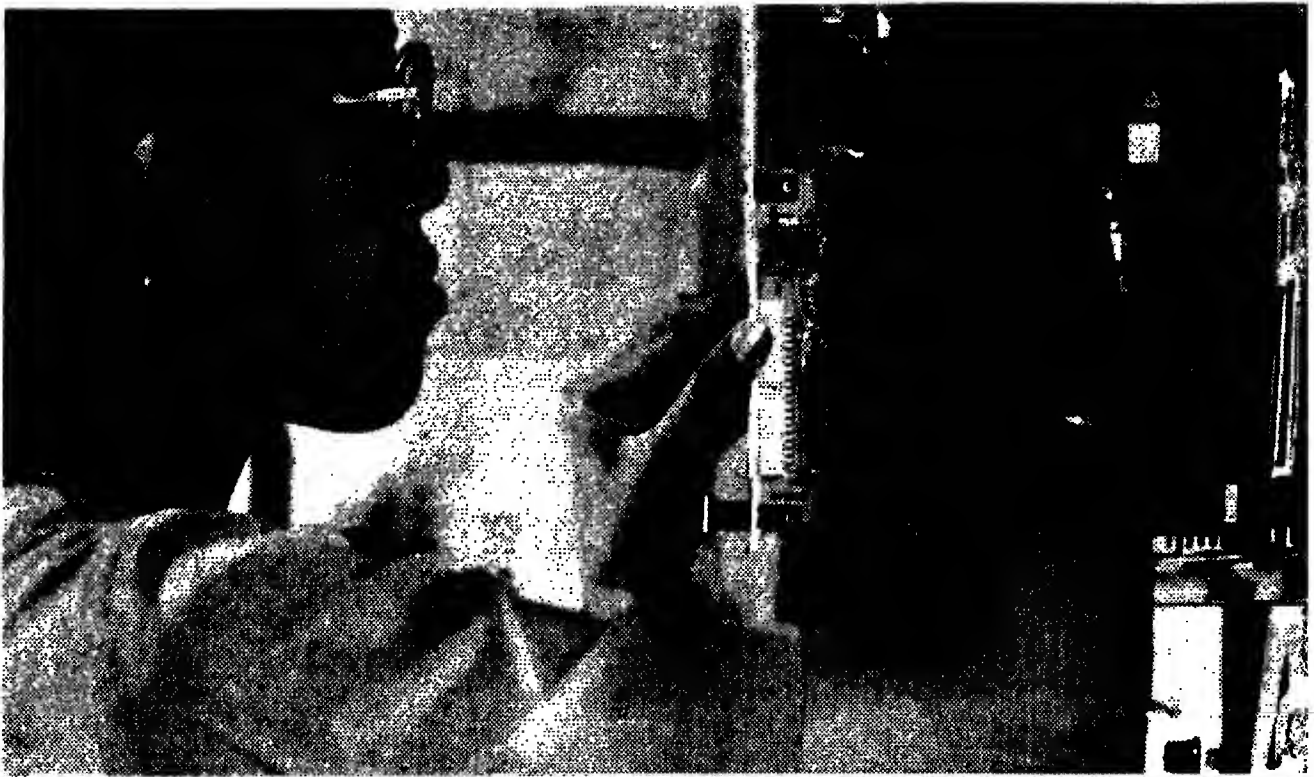
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